



Summary Report for Swimming Stakeholders: Yellowstone County Sports Facility Market Needs Assessment

March 21, 2018

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The funding for this Yellowstone County Sports Facility Market Needs Assessment was funded in part by an award from the Montana Department of Commerce, Big Sky Economic Development Trust Fund Program. Additional funding was provided by Visit Billings, Laurel Aquatic Recreation Complex, Laurel Urban Renewal Agency, South Billings Urban Renewal Association, Billings Aquatics Club, and Montana Swimming.

I. INTRODUCTION

Note: This summary report contains highlights from our full report that are relevant to swimming stakeholders.

Victus Advisors was engaged by a **Yellowstone County** stakeholder group* facilitated by Big Sky Economic Development and Beartooth RC&D in October 2017 to conduct an independent analysis of Yellowstone County's (the "County") sports tourism venues and sports marketing opportunities. We assessed both the local sports community in the County and the relevant regional sports tourism markets to identify opportunities and recommend potential new facilities for increasing Yellowstone County's market potential for youth and amateur sports tourism.

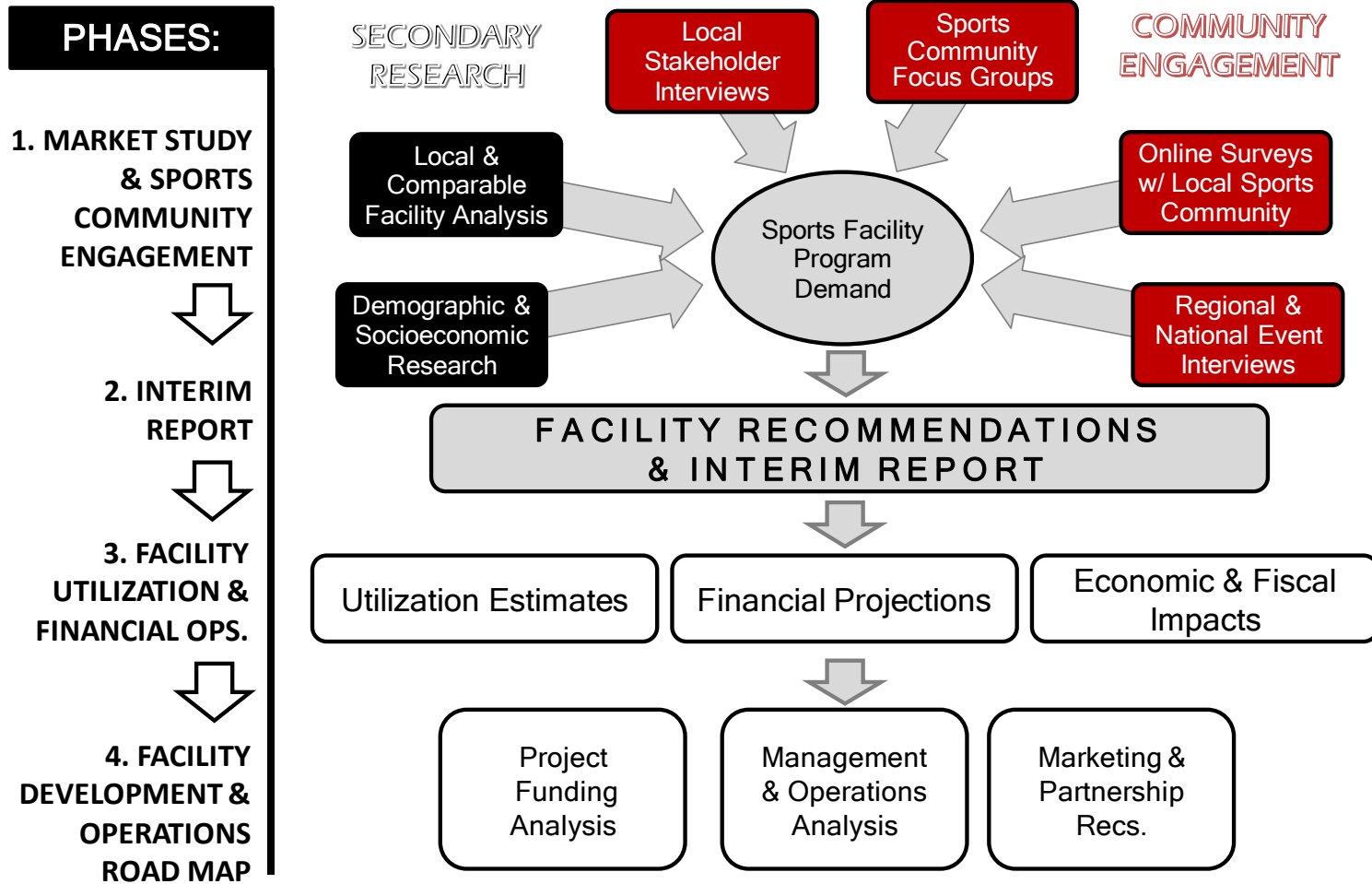
Our primary project tasks and goals for this study included:

- Reviewing existing plans, documents, and reports, including the USA Swimming Enterprise Plan for a New Aquatic Center in Billings
- Engaging local sports community stakeholders and sports facility user groups to assess the strengths and weaknesses of the local Yellowstone County sports market
- Assessing the strengths and weaknesses of Yellowstone County as a regional sports tourism destination
- Identifying and recommending potential improvements to Yellowstone County's current facility and venue inventory
- Recommending the type and location for sports venue development in Yellowstone County
- Estimating the potential economic and fiscal impacts of sports venue development

** Stakeholders who funded this sports market/facility study include: Montana Department of Commerce, Visit Billings, Laurel Aquatic Recreation Complex, Laurel Urban Renewal Agency, South Billings Urban Renewal Association, Billings Aquatics Club, and Montana Swimming. The study process was facilitated by Big Sky Economic Development and Beartooth RC&D.*

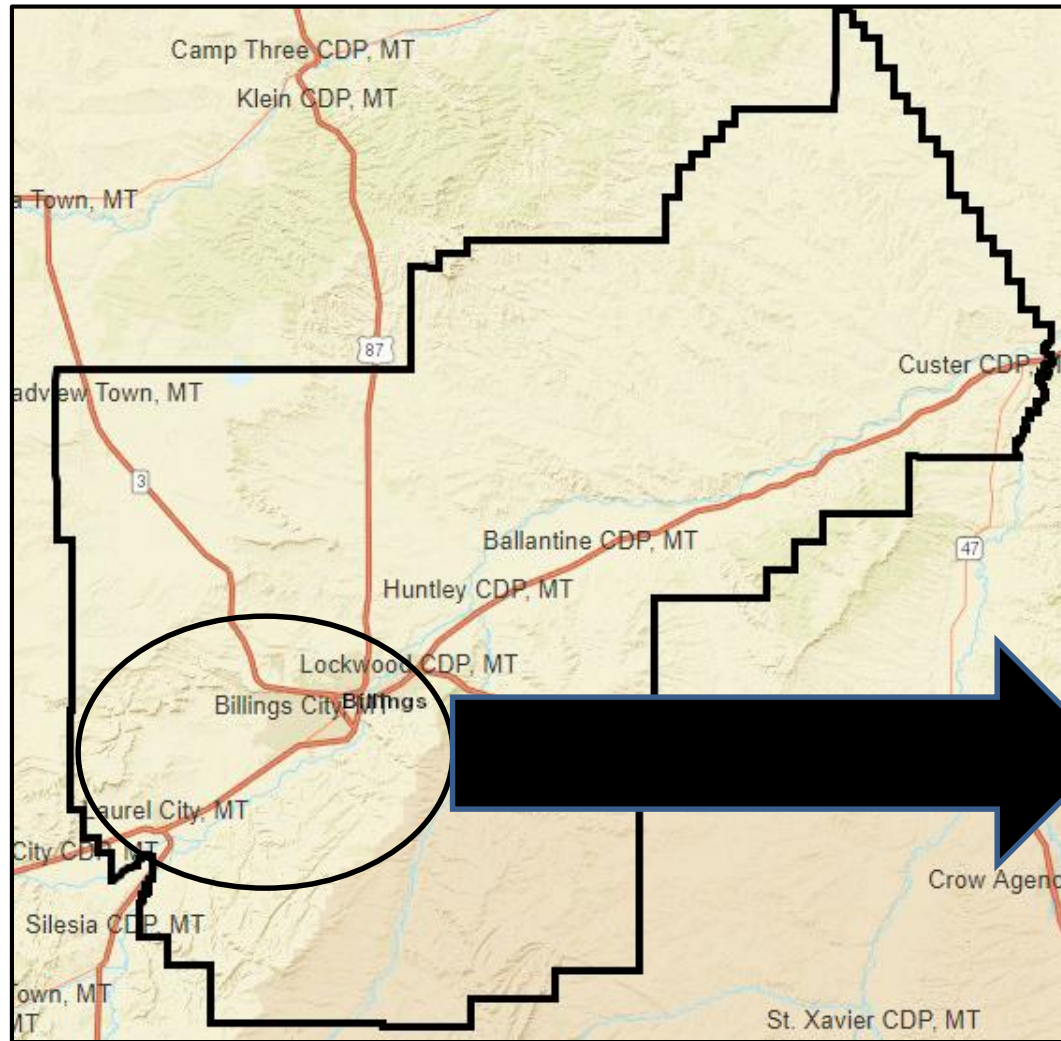
PROJECT METHODOLOGY

As shown below, Victus Advisors' proven methodology for sports market and facility analysis is based upon extensive market research and community engagement. Our demand estimates and facility recommendations are informed by local market/facility analysis, comparable market/facility benchmarking, interviews with key stakeholders and sports community leaders, local sports community surveys, and regional/national sports event interviews. The information we gather through our research/engagement process is then utilized to develop facility-specific operating and financial projections, market-specific economic/fiscal impact estimates and project funding recommendations, and management and marketing recommendations.



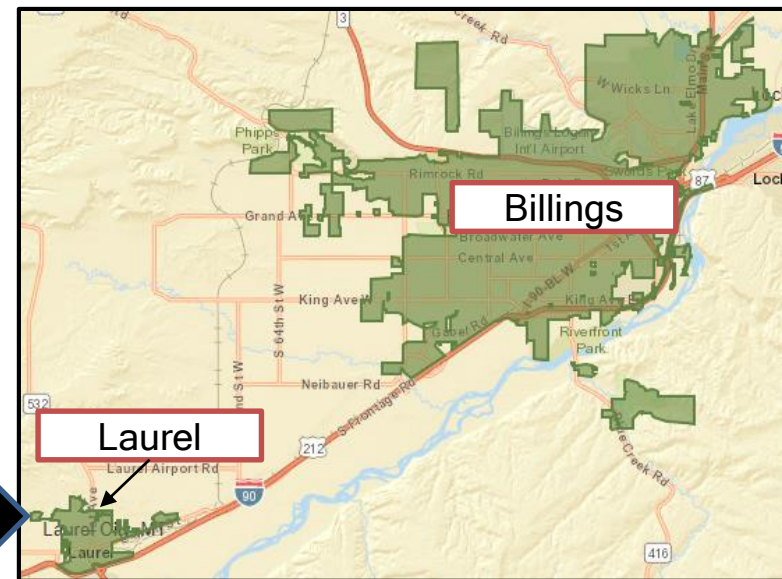
II. ECONOMIC & DEMOGRAPHIC OVERVIEW

YELLOWSTONE COUNTY



Source: Esri

Yellowstone County is the largest county (in terms of population) in Montana with a current population of 163,372 people.



Billings is the County's largest city (in terms of population) with 115,030 people, representing 70% of the County's total population. The City of Laurel has a population of 7,171, representing 6% of the County's total population.

POPULATION DATA

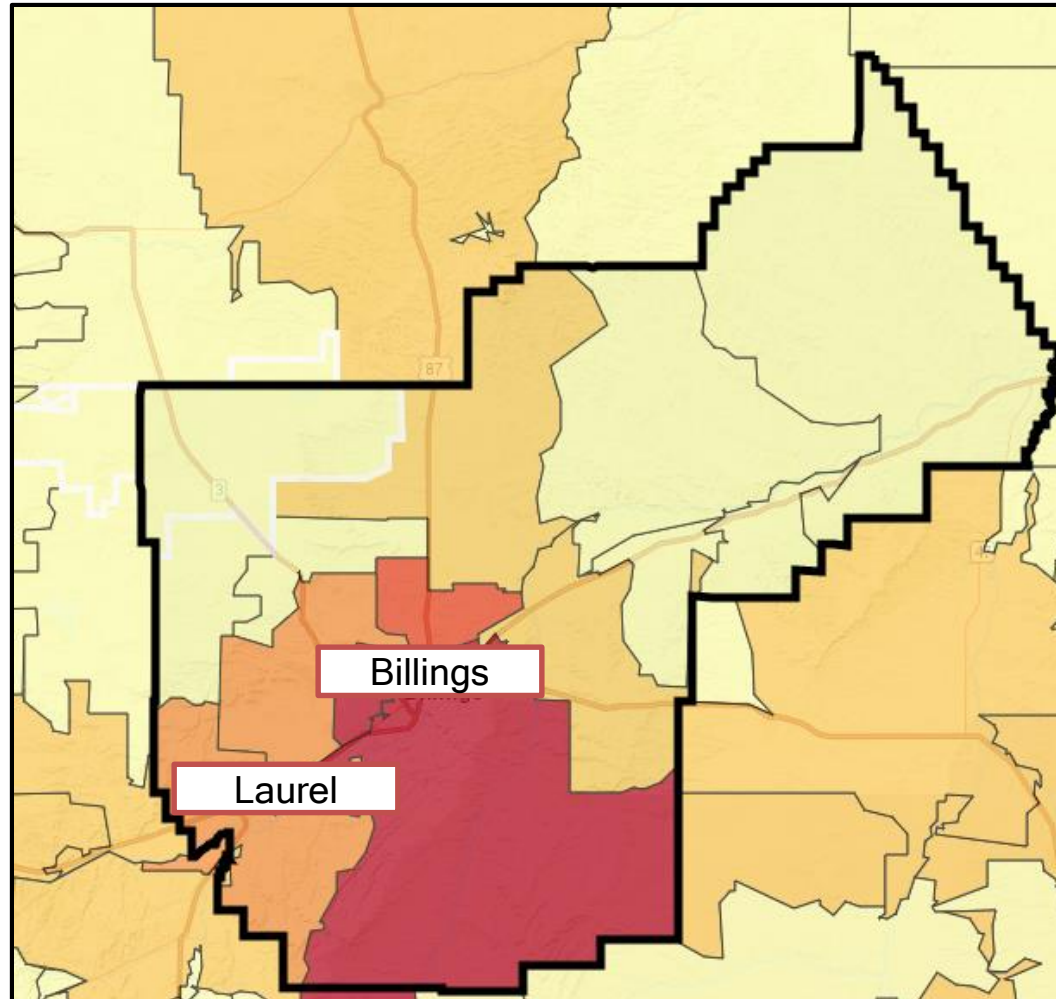
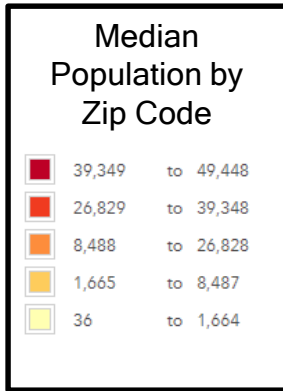
	Yellowstone County	United States
Population	163,372	327,514,334
Population Under 18	36,564	73,155,846
Percentage of Population Under 18	22.4%	22.3%
Population Growth:		
Annual Pop. Growth (2000 to 2017)	1.4%	1.0%
Annual Pop. Growth (5-year Projection)	1.3%	0.8%
Projected Population (2022)	174,395	341,323,594
Median Age	39.3	38.2

Source: Esri

Yellowstone County had a higher annual population growth rate over the last 17 years than the national average, and is projected to have an even higher growth rate when compared to the national average over the next five years. A high population growth rate correlates well for youth and amateur sports demand.

Also, compared to the national average, Yellowstone County has an older median age. County age statistics reflect a smaller share of working age population and young families, which may not be favorable for youth and amateur sports. However, this factor could be offset by continued population growth, which should drive more employment-aged workers and young families to the County.

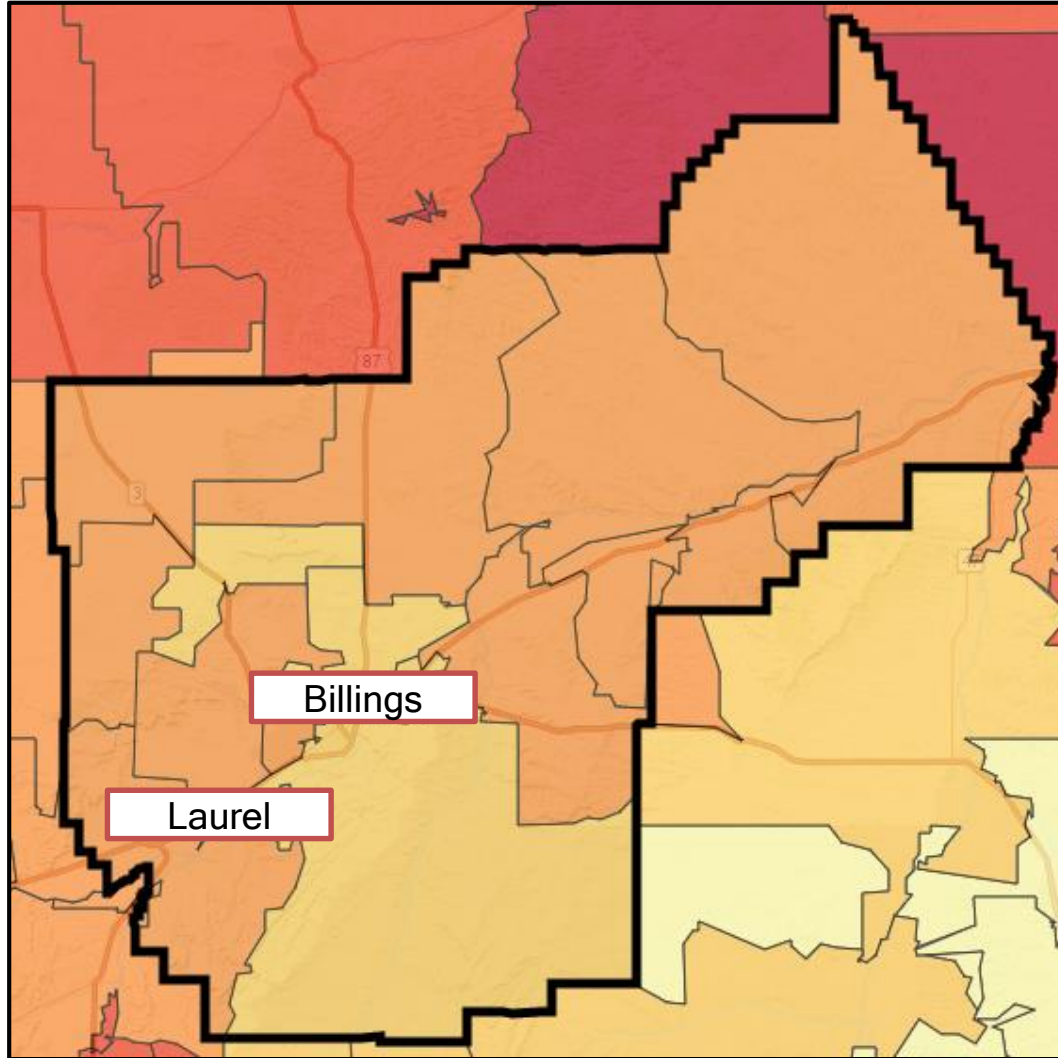
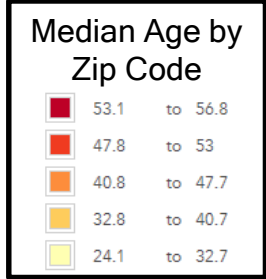
POPULATION DISTRIBUTION



Source: Esri

Yellowstone County's population is clustered around the Billings and Laurel areas. There are relatively few residents in the northwest and northeast parts of the County.

AGE DISTRIBUTION



A lower median age tends to be a positive indicator for amateur sports venues due to the presence of a large working age population and young families. In Yellowstone County, younger age groups tend to be clustered around central Billings, with older median ages to the west in Laurel, and to the East in Lockwood.

Source: Esri

HOUSEHOLD DATA

	Yellowstone County	United States
Total Households	66,316	123,158,887
Households With Children Under 18	41,020	81,106,685
Percentage of Households With Children	61.9%	65.9%

Source: Esri

	Yellowstone County	United States
Median Household Income	\$53,732	\$56,124
Adjusted Median Household Income (1)	\$60,170	\$56,124

Sources: Esri, city-data.com

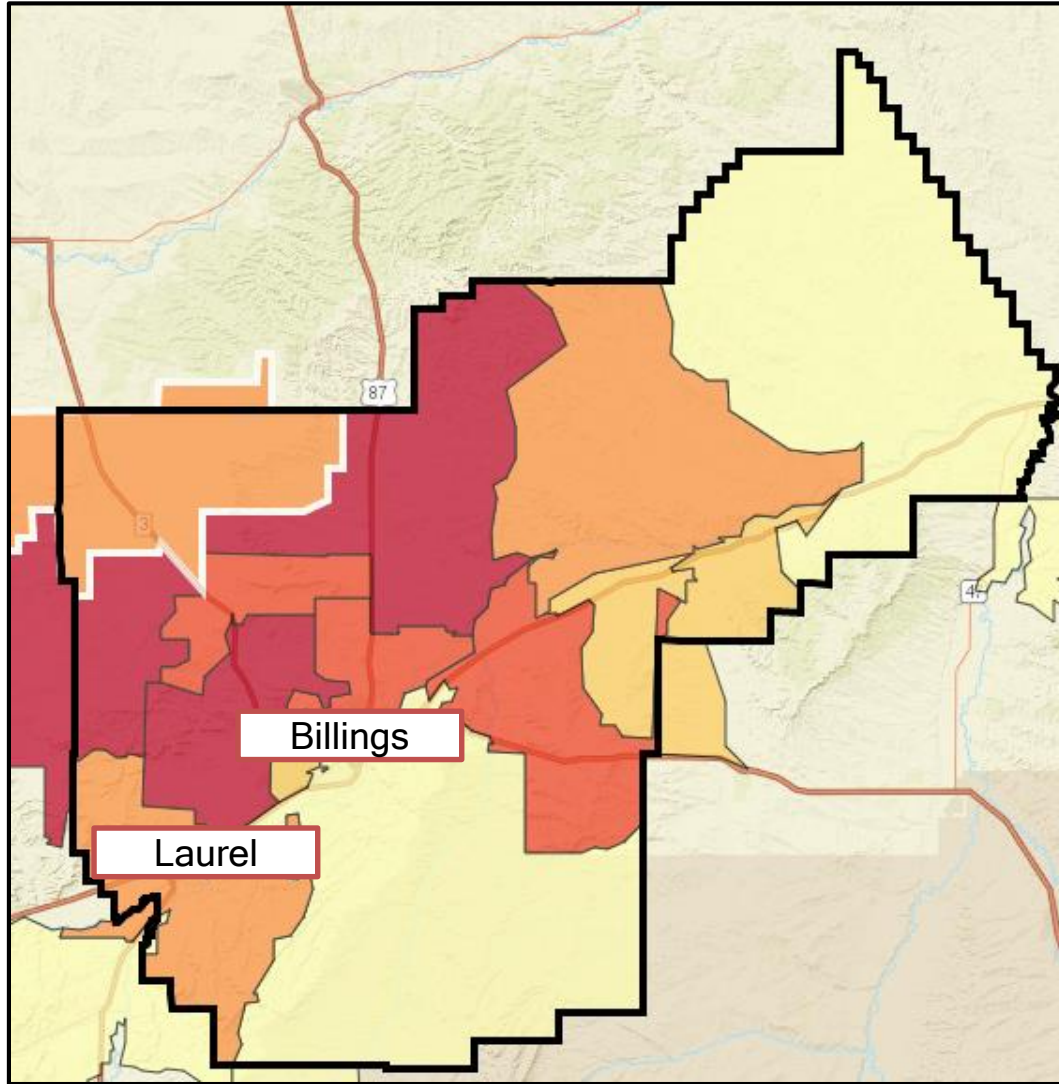
Note: (1) Adjusted for cost of living according to city-data.com

Yellowstone County is lower than the U.S. average in terms of the percentage of households with children, which could be a negative indicator for youth sports demand in the County.

However, the median household income in Yellowstone County is significantly higher than the U.S. average. Higher household income levels can often indicate an ability for a household to spend disposable income on both adult recreation and youth sports.

INCOME DISTRIBUTION

Median Income by Zip Code



Median Household Income levels within the County tend to be highest around Billings. Income levels are significantly lower in the south and northwest areas of the County.

Source: Esri

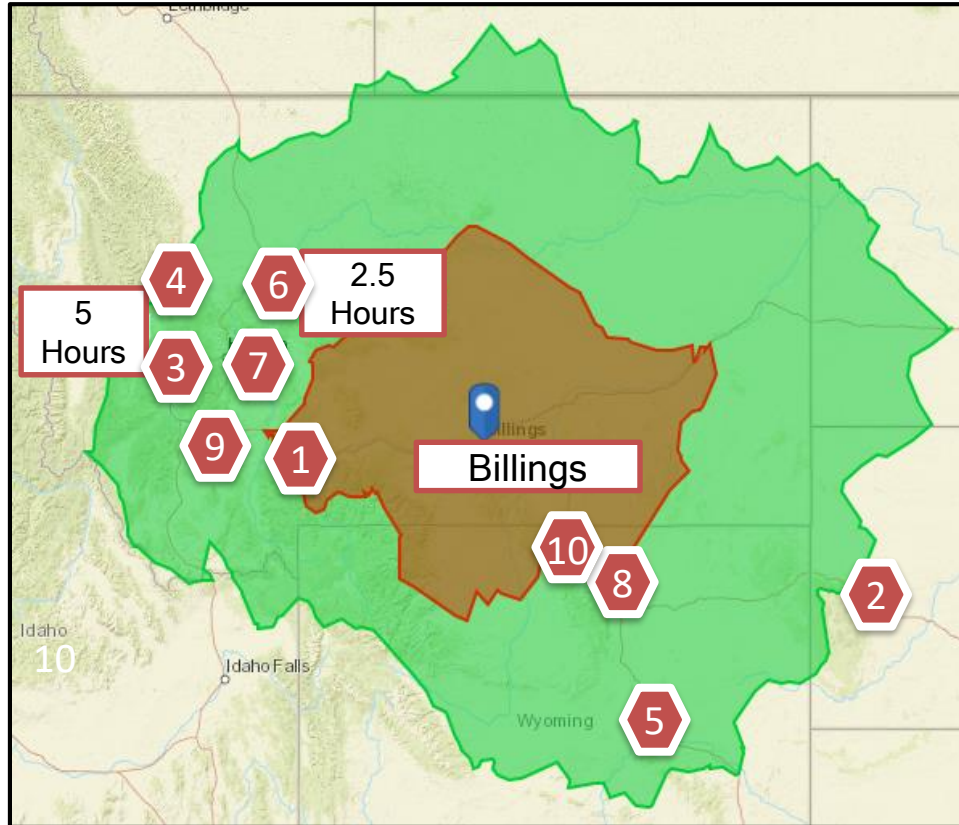
TOURNAMENT & MEET DRIVE TIME ZONES

METROPOLITAN STATISTICAL AREA (MSA)

MSA's are defined by U.S. Office of Management & Budget as adjacent counties with high degree of social/economic integration with urban core of 50,000 people or more.

MICROPOLITAN STATISTICAL AREA (μSA)

μSA's are defined by U.S. Office of Management & Budget as one or more adjacent counties or county equivalents that have at least one urban core area of at least 10,000 population but less than 50,000, plus adjacent territory that has a high degree of social and economic integration.



Source: Esri

The Rapid City MSA is the largest other market within a five hour drive of Billings. As a result, the majority of tournament activity is likely to be drawn from Wyoming, North and South Dakota, and Idaho, and would typically require multi-night stays by tournament participants. It is worth noting that Cody, Wyoming (mentioned often by stakeholders as a sports tourism community) is only one hour and 45 minutes away. The City's population (just over 10,000) is so small that it is not designated as a statistical area by the U.S. Office of Management & Budget.

MSA's & μSA's within a 2.5-hour Drive

1 Bozeman μSA
pop. 106,815

Other MSA's & μSA's within a 5-hour Drive

2 Rapid City MSA
pop. 148,402

3 Missoula MSA
117,299

4 Kalispell μSA
99,637

5 Casper MSA
84,646

6 Great Falls MSA
83,524

7 Helena μSA
79,637

8 Gillette μSA
50,762

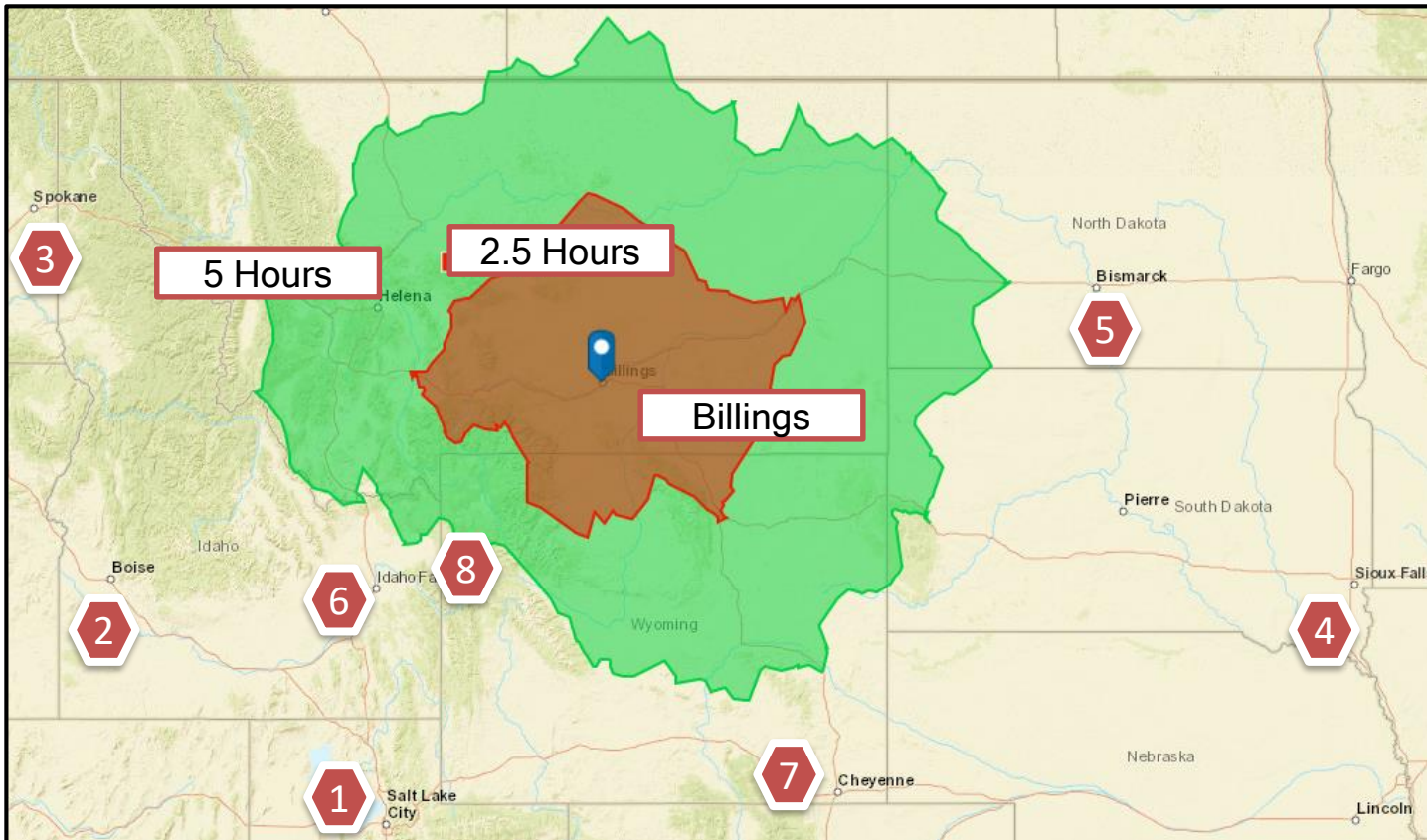
9 Butte μSA
35,471

10 Sheridan μSA
30,650

OTHER MARKETS BEYOND 5 HOURS

Other MSA's & μ SA's in the Northwest Region

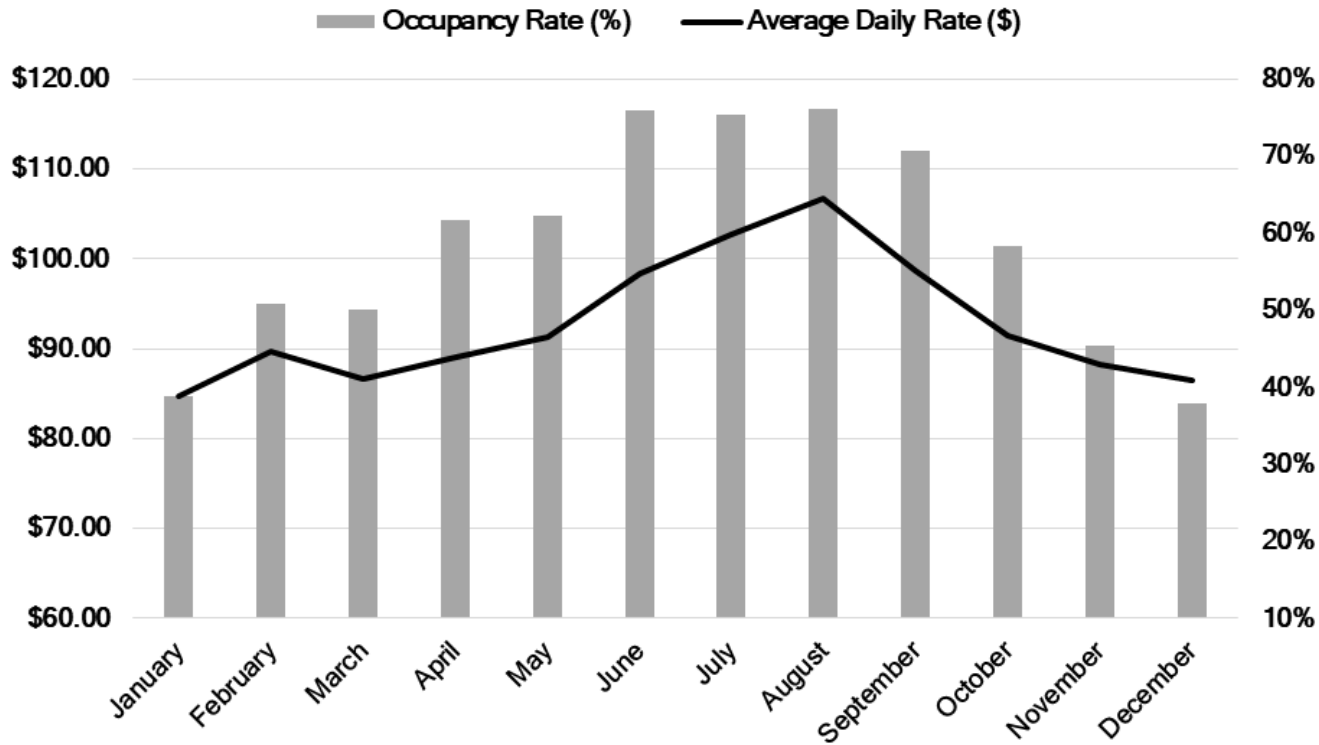
- 1** Salt Lake City MSA
pop. 1,207,227
(8.5 hour drive time)
- 2** Boise MSA
705,380
(9.5 drive time)
- 3** Spokane MSA
561,384
(8 hour drive time)
- 4** Sioux Falls MSA
262,280
(10 hour drive time)
- 5** Bismarck MSA
137,274
(6 hour drive time)
- 6** Idaho Falls MSA
117,299
(5.5 hour drive time)
- 7** Cheyenne MSA
99,790
(6 hour drive time)
- 8** Jackson Hole μ SA
33,957
(6 hour drive time)



Sources: Esri, Google Maps

Outside of the five hour drive time region, sports markets that were frequently mentioned by survey respondents and other stakeholders include Spokane, Boise, and Idaho Falls to the west; Salt Lake City, Jackson Hole, and Cheyenne to the south; and Bismarck and Sioux Falls to the east. As stated on the previous page, the majority of tournament activity is likely to be drawn from Wyoming, North and South Dakota, and Idaho and would require multi-night stays.

YELLOWSTONE COUNTY HOTEL DATA - 2016



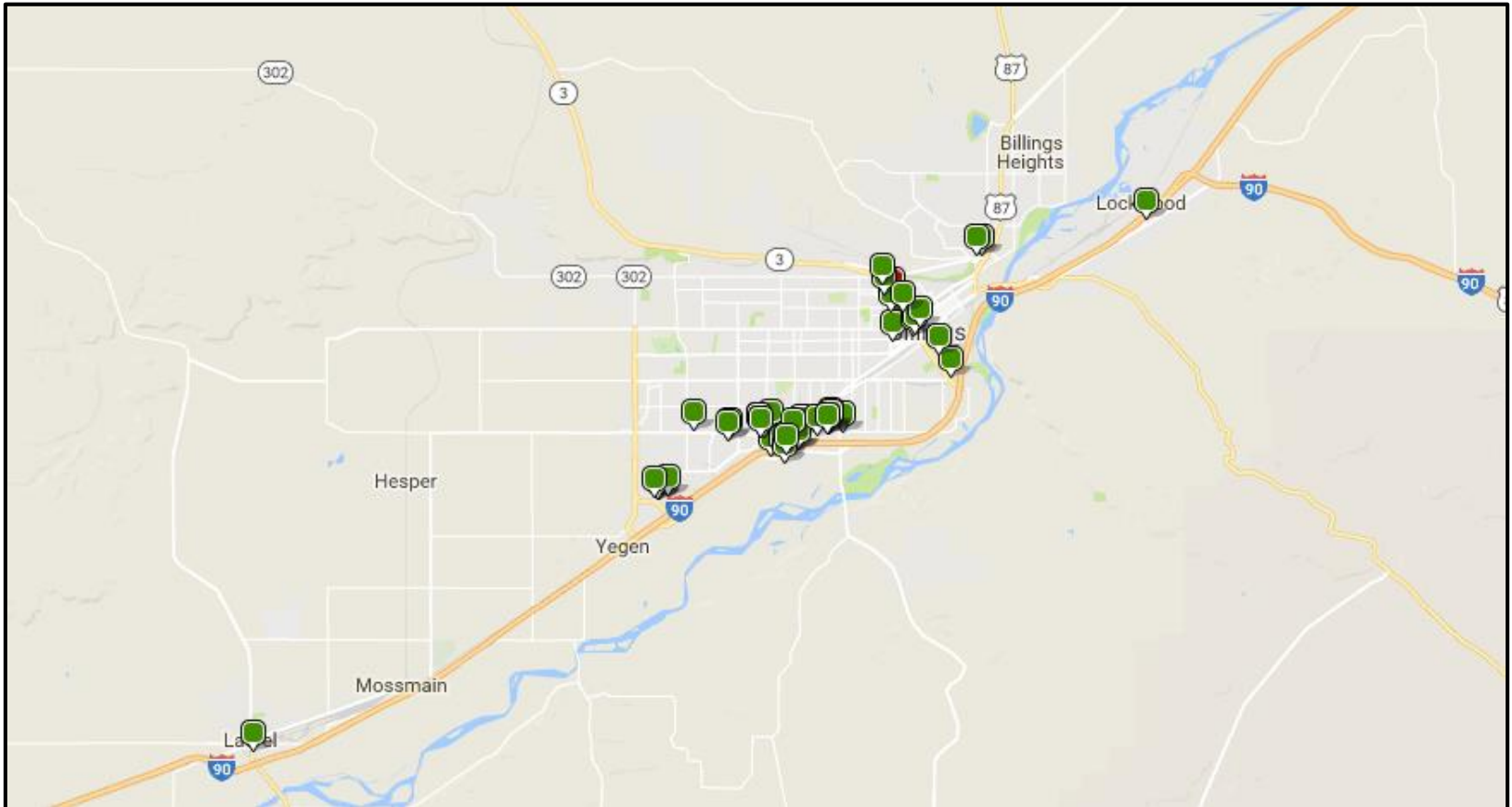
Source: Visit Billings

Nationwide, the Average Daily Rate (ADR) of hotels in 2016 was more than \$120 per night. However, Yellowstone County hotel ADRs range from \$85 to \$107 per night throughout the calendar year. County hotel occupancy dips significantly in the winter months (November to March has an average monthly occupancy rate of 45%), indicating significant seasonality in visitation to the County, and thus a potential opportunity for indoor sporting events in the winter to fill underutilized hotel rooms at family-friendly rates.

HOTEL INVENTORY

Convenient, affordable, family-friendly lodging (preferably no more than a 10-minute drive from a sports facility) is an important component of attracting and hosting multi-day tournament activity.

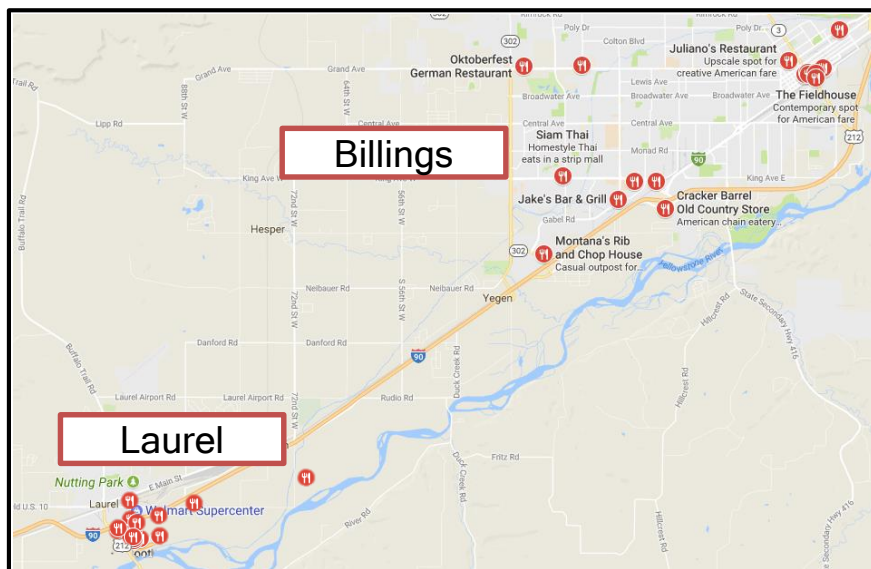
Victus found that lodging (minimum 2-star hotel class) in Yellowstone County is primarily concentrated in two locations: 1) Billings near downtown, and 2) near King Avenue and Mullaney Lane in southwest Billings.



Source: Hotels.com, Google Maps

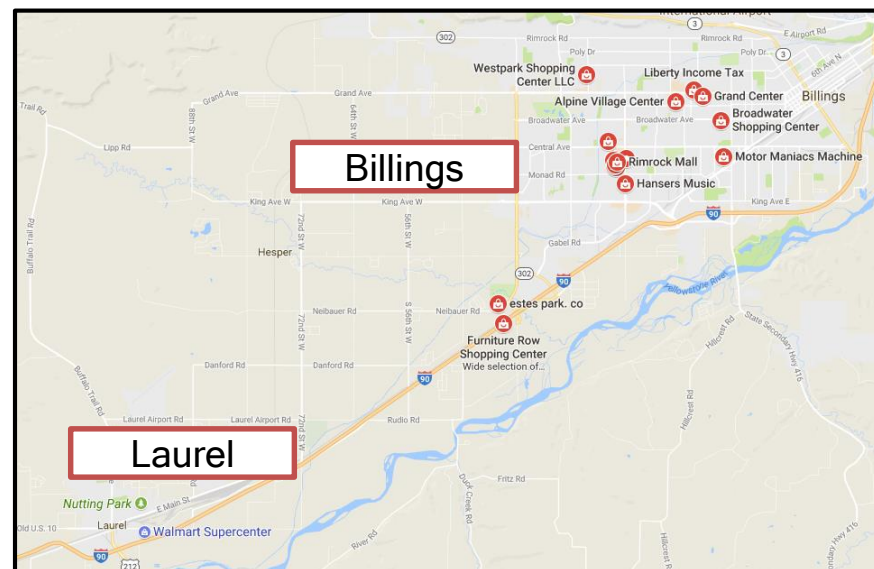
Note: Minimum 2-star hotel class

RESTAURANT MAP



Source: Google Maps

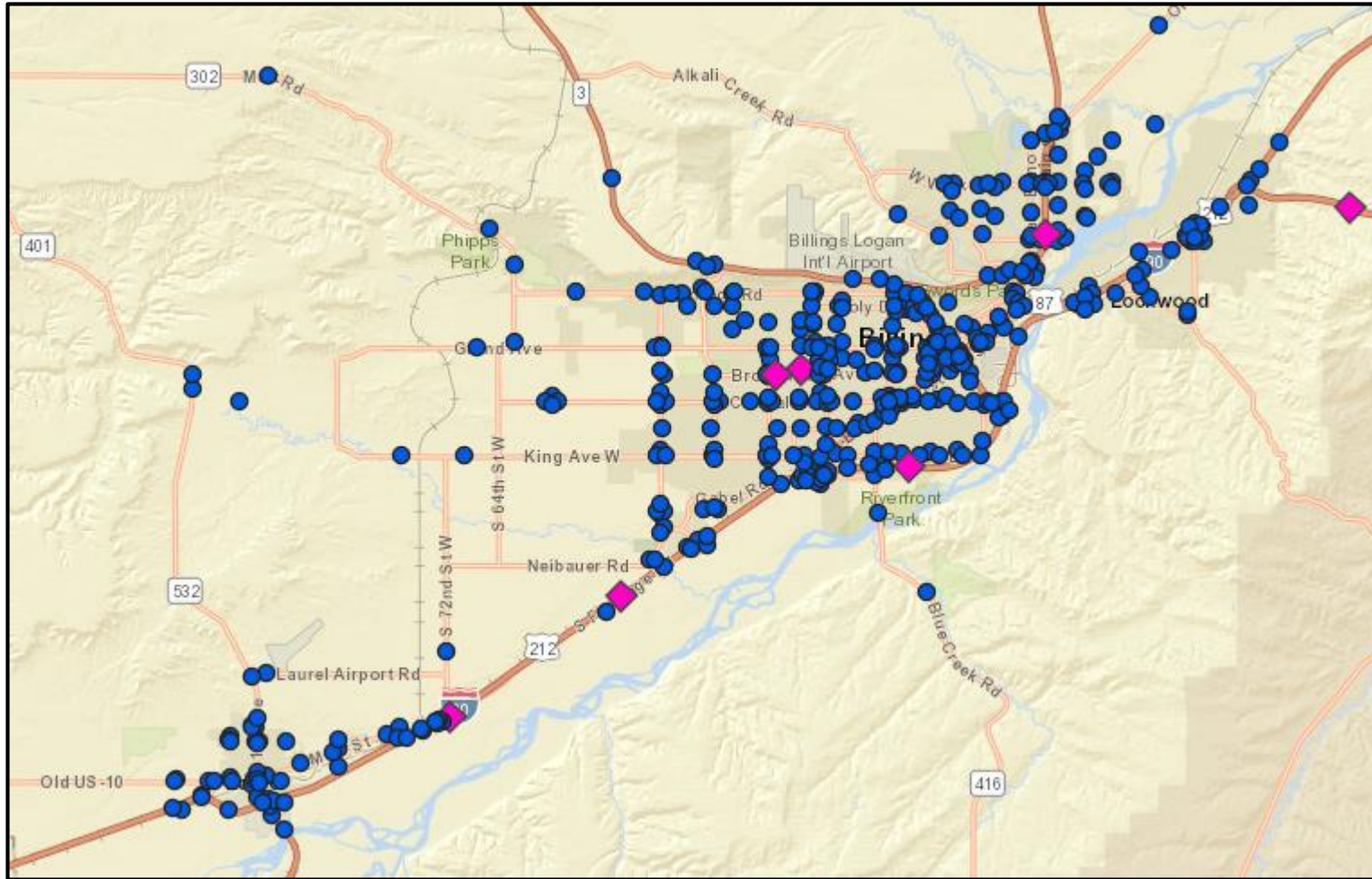
RETAIL SHOPPING MAP



Source: Google Maps

Convenient access to food and retail outlets is also an important component of hosting sports tournament activity. Numerous food/shopping options are clustered near Billings. Aside from a Wal-Mart and a few restaurants, there are limited retail and dining options in the Laurel area compared to Billings.

TRAFFIC & HIGHWAY ACCESS - YELLOWSTONE COUNTY



Daily traffic in the County is mainly clustered around Billings, with smaller counts heading towards and within Laurel.

Convenient access to major interstates is often a key factor in attracting regional/national tournament activity by ensuring that families can reach the sports facility easily via automobile.

Sources: Montana Department of Transportation (MDT), Esri

Note: Markers above represent MDT traffic counters, which are typically installed on roadways with 3,500+ cars per day.

Based upon feedback from focus groups, in-person interviews, telephone interviews, and online surveys with youth sports organizations and stakeholders within the County regarding the markets that they most often compete against for amateur sports events, Victus Advisors compared the Billings MSA's (defined as Golden Valley County, Yellowstone County, and Carbon County) demographic and socioeconomic characteristics to the following competitive set of MSA's and μ SA's:

Montana

- Bozeman
- Missoula
- Kalispell
- Great Falls
- Helena
- Butte

Out of State

- Sioux Falls, SD
- Rapid City, SD
- Casper, WY
- Gillette, WY
- Sheridan, WY
- Jackson Hole, WY

COMPARATIVE MARKETS - POPULATION

<u>City, State</u>	<u>MSA/μSA</u>	<u>MSA/μSA Population</u>
Sioux Falls, SD	Sioux Falls	262,280
Billings, MT	Billings	174,681
Rapid City, SD	Rapid City	148,402
Missoula, MT	Missoula	117,299
Bozeman, MT	Bozeman	106,815
Kalispell, MT	Kalispell	99,637
Casper, WY	Casper	84,646
Great Falls, MT	Great Falls	83,524
Helena, MT	Helena	79,637
Gillette, WY	Gillette	50,762
Butte, MT	Butte-Silver Bow	35,471
Jackson Hole, WY	Jackson	33,957
Sheridan, WY	Sheridan	30,650
Average		100,597
Median		84,646

Source: Esri

Note: Sorted by MSA/μSA Population in descending order

The Billings MSA's population of 174,681 represents the second most populated out of the 13 competitive markets selected for comparative analysis.

COMPARATIVE MARKETS - POPULATION GROWTH

MSA/μSA	Annualized Pop. Growth (2000-2017)	Proj. Annual Pop. Growth (2017-2022)
Bozeman	2.7%	2.5%
Sioux Falls	2.0%	1.9%
Casper	1.4%	1.4%
Kalispell	1.7%	1.4%
Gillette	2.4%	1.4%
Jackson	2.0%	1.4%
Rapid City	1.3%	1.3%
Billings	1.3%	1.3%
Missoula	1.2%	1.1%
Helena	1.1%	0.8%
Sheridan	0.8%	0.6%
Butte-Silver Bow	0.1%	0.4%
Great Falls	0.2%	0.3%
Average		1.2%
Median		1.3%

U.S. Average:
 2000-2017: 1.0%
 2017-2022: 0.8%

Source: Esri

Note: Sorted by Projected Annual Population Growth in descending order

The projected growth rate of the Billings MSA is above the average amongst the 13 comparative markets, as well as the U.S. average.

COMPARATIVE MARKETS - MEDIAN AGE

MSA/ μ SA	Median Age
Gillette	33.3
Bozeman	33.8
Sioux Falls	35.9
Missoula	35.9
Jackson	37.4
Casper	37.9
Rapid City	38.6
Great Falls	39.4
Billings	40.0
Butte-Silver Bow	42.6
Kalispell	42.8
Helena	43.2
Sheridan	43.2
Average	38.8
Median	38.6

U.S. Median:
38.2

Source: Esri Note: Sorted by Median Age in ascending order

The Billings MSA's median age of 40 is above both the average and median among comparative markets. Younger median age indicates that a market could be more likely to support and participate in amateur sports events due to the presence of a working-age population and young families.

COMPARATIVE MARKETS - YOUTH

<u>MSA/μSA</u>	<u>Total Households</u>	<u>Households w/ Children Under 18</u>	<u>% of Households w/ Children</u>
Gillette	18,823	12,835	68.2%
Kalispell	40,953	26,556	64.8%
Rapid City	60,980	39,458	64.7%
Sioux Falls	102,358	66,192	64.7%
Casper	34,248	21,578	63.0%
Helena	33,247	20,845	62.7%
Great Falls	34,801	21,553	61.9%
Billings	71,442	44,194	61.9%
Sheridan	13,038	7,939	60.9%
Jackson	13,600	7,839	57.6%
Bozeman	43,658	24,772	56.7%
Butte-Silver Bow	15,498	8,756	56.5%
Missoula	49,478	27,219	55.0%
Average	40,933	25,364	61.4%
Median	34,801	21,578	61.9%

<p>United States:</p> <p>65.9%</p>
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Source: Esri

Note: Sorted by % of Households w/ Children in descending order

Nearly 62% of households in the Billings MSA have children, which is just above the average amongst comparative markets (61%). As previously mentioned, this metric tends to improve over time in areas such as Yellowstone County that are experiencing rapid population and economic growth.

COMPARATIVE MARKETS - HOUSEHOLD INCOME

<u>MSA/μSA</u>	<u>Median Household Income</u>	<u>Adj. Median Household Income</u>
Gillette	\$77,162	\$90,248
Sioux Falls	\$58,527	\$71,724
Casper	\$57,219	\$70,728
Jackson	\$68,977	\$64,646
Helena	\$55,798	\$64,581
Sheridan	\$53,993	\$62,783
Rapid City	\$52,156	\$61,943
Billings	\$53,456	\$60,130
Bozeman	\$54,249	\$59,224
Kalispell	\$48,794	\$55,637
Great Falls	\$46,699	\$54,050
Missoula	\$47,909	\$51,626
Butte-Silver Bow	\$41,469	\$44,590
Average		\$62,455
Median		\$61,943

<p>United States:</p> <p>\$56,124</p>
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Sources: Esri and city-data.com

Note: Sorted by Adjusted Median Household Income in descending order (adjusted for cost of living)

The Billings MSA ranks slightly lower than both the average and median of comparative markets in terms of cost-of-living-adjusted median household income, which can be a potential indicator of household income available for spending on sports, recreation, and leisure. However, the adjusted median household income in Billings is higher than the national average.

COMPARATIVE MARKETS - BUSINESS INVENTORY

MSA/μSA	Total Businesses
Sioux Falls	10,296
Billings	8,749
Rapid City	6,541
Missoula	6,067
Bozeman	5,675
Kalispell	5,494
Casper	4,174
Helena	3,838
Great Falls	3,620
Jackson	2,566
Gillette	2,036
Sheridan	1,830
Butte-Silver Bow	1,730
Average	4,817
Median	4,174

Source: Esri

Note: Sorted by Total Businesses in descending order; Defined as NAICS recognized businesses.

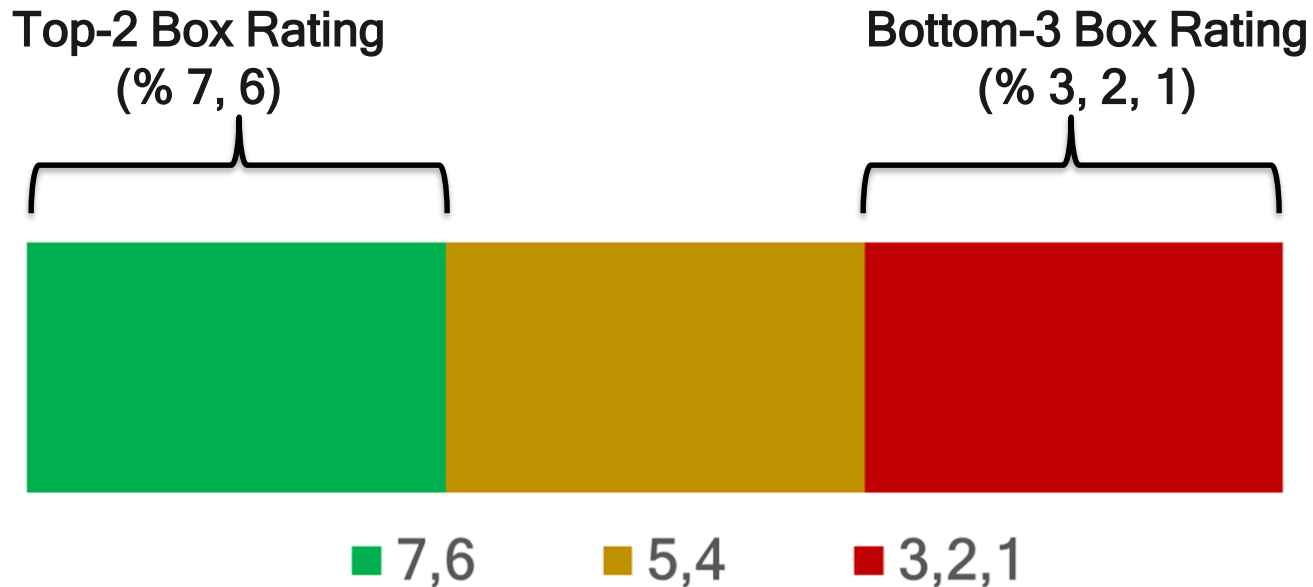
Amongst comparative markets, the Billings MSA ranks second in terms of business inventory, which can be a sign of overall economic health, as well as an indicator for potential corporate sponsorship/advertising support of sports tourism facilities and tournaments/events.

III. LOCAL FACILITY INVENTORY & SPORTS PARTICIPATION TRENDS

FACILITY SATISFACTION METHODOLOGY

As part of our community survey process, Victus Advisors gathered feedback from local sports participants regarding their satisfaction with the primary sports venues that are utilized within the county. Survey respondents were asked to rate their satisfaction with each facility on a 7-point scale, in which “7” represents “Very Satisfied” and “1” represents “Very Dissatisfied”.

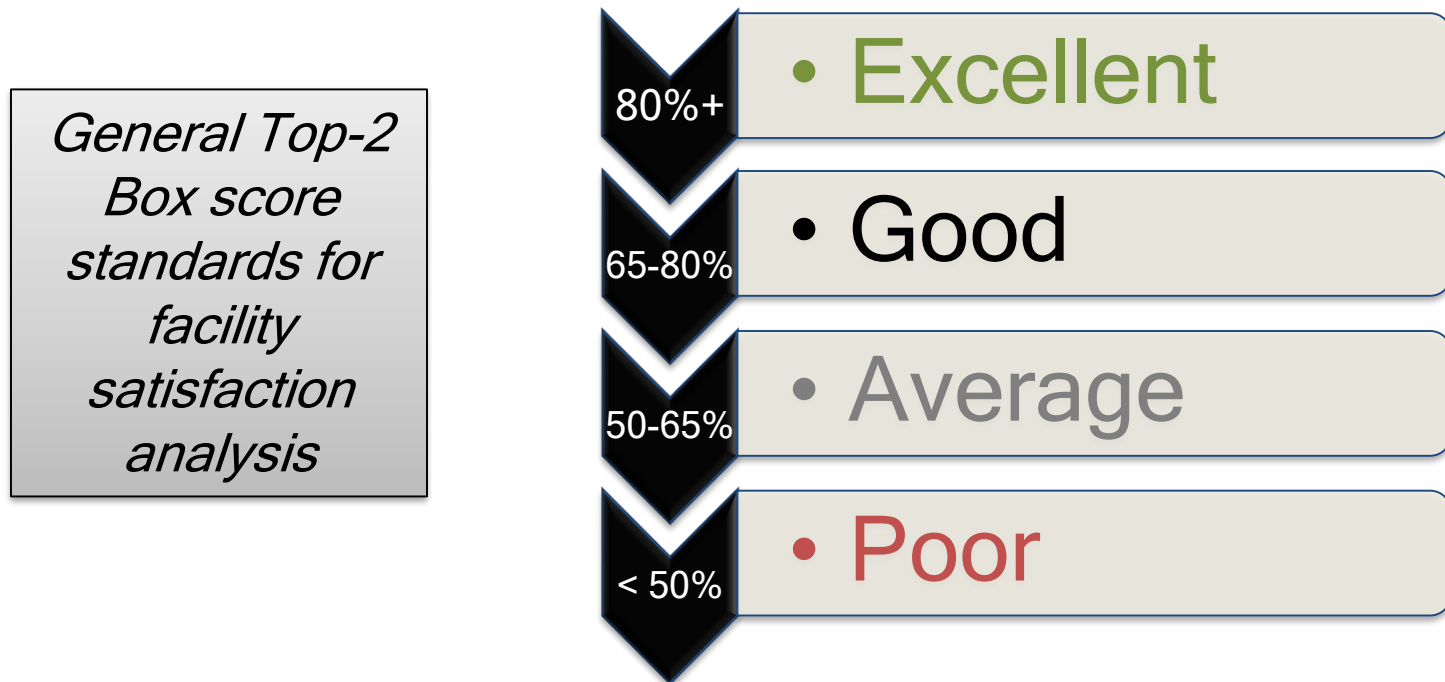
Results were evaluated using “**Top-2 Box**” combined scores (“7” + “6”, representing the highest levels of satisfaction) and “**Bottom-3 Box**” (“3” + “2” + “1”, representing the lowest satisfaction levels).



FACILITY SATISFACTION METHODOLOGY (CONT.)

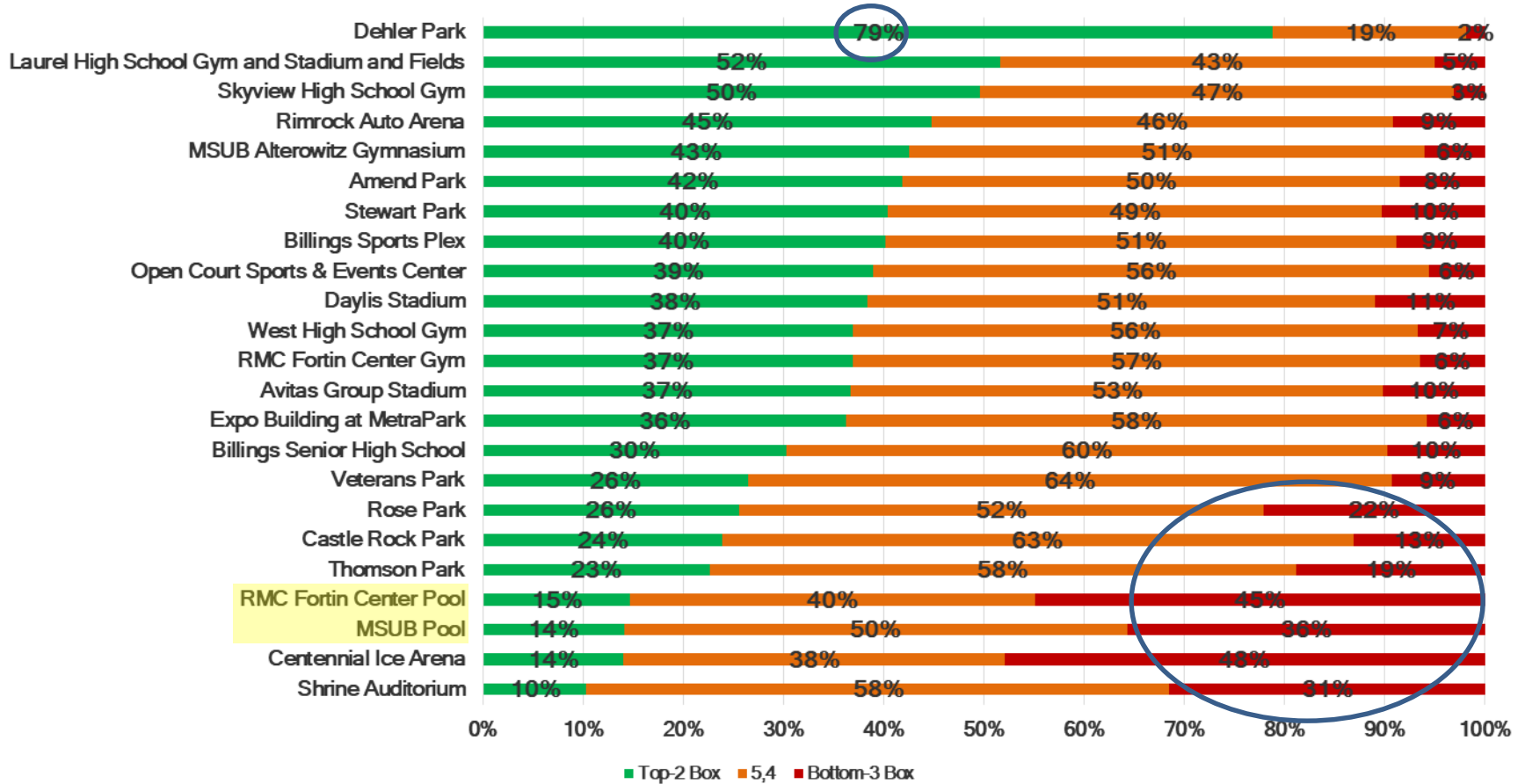
Our Top-2 Box methodology is a best-in-class approach to facility satisfaction measurement. This methodology is being used by Victus Advisors in this section to indicate the current condition, based on facility user input, of Yellowstone County competitive sports facilities. It should be noted that a similar satisfaction methodology is utilized by many customer service-oriented businesses (such as department stores, hotels, banks, etc.).

The focus on Top-2 Box scores places a higher emphasis on the priority of achieving maximum satisfaction (scores of 6 or 7) from every visitor.



SATISFACTION WITH YELLOWSTONE COUNTY SPORTS FACILITIES

Dehler Park had the highest facility satisfaction rating at 79%, the only facility in the County to receive an “above average” rating. It is also worth noting that RMC Fortin Center Pool and MSUB Pool were among the lowest rated facilities in the County.



Note: Sorted by Top-2 Box score in descending order

RMC FORTIN CENTER POOL

1511 Poly Dr., Billings, MT 59102

- Top-2 Box Rating: 15% (Poor)
- Owner/Operator: Rocky Mountain College
- Features:



- 25-yard swimming pool
- Sample Events:
 - Billings Aquatic Club
 - High school swim team practices
 - Short course swim meets
- Anonymous Survey Comments:
 - “RMC pool has been updated but still is lacking in swimming needs for community - also isn't open to the public for lap swimming.”
 - “RMC pool not adequate to meet needs of Billings swimmers.”
 - “Rocky pool and locker room desperately needs an update.”
 - “RMC Pool and locker/building facilities has seen some improvements in the past year, but it is... too small for significant competitive events.”

RENTAL RATES:

- Billings Aquatic Club pays a monthly fee for use of RMC’s pool
 - Public Use Fee: \$5/person per visit

MSUB POOL

1500 University Dr., Billings, MT 59101

- Top-2 Box Rating: 14% (Poor)
- Owner/Operator: MSU Billings
- Features:
 - 25-yard swimming pool
- Sample Events:
 - Swim camps and clinics
- Anonymous Survey Comments:
 - “You cannot host a meet at MSUB because there are no blocks.”
 - “MSUB's pool is too small for the number of swimmers who need a facility. MSUB only rents out three of their six lanes due to Open Swim. This results in 40-50 kids trying to share three lanes for almost two hours. The quality of practice is greatly affected by the shear congestion in the pool.”
 - “Access to the MSUB pool is very confusing. Not enough room for spectating. Not enough parking.”



RENTAL RATES:

- Pool: \$250/day

ROSE PARK

21st St. W, Billings, MT 59102

- Top-2 Box Rating: 26% (Poor)
- Footprint: 20 acres
- Owner/Operator: Billings Parks & Recreation
- Features:
 - 3 soccer/multi-use fields
 - 2 tennis courts
 - 1 softball/baseball field
 - 1 outdoor swimming pool (50 meters)
- Sample Events:
 - MHS A State A Tennis Tournament
- Anonymous Survey & Focus Group Comments:
 - “Rose park does not have minimum depth for racing starts at both ends of the pool.”
 - “Rose Park feels very old and run down. Also, there is a safety concern with the types of people that hang out at the park. Doesn’t feel safe for kids.”



RENTAL RATES:

Note: There is no rental fee, but groups must submit a park use permit. Park use permit requests for athletic field use are \$50.00/field/continuous season for primary users and \$25.00/field/continuous season for secondary users. A secondary user is a group scheduled by Parks and Recreation Staff to an athletic field less than four days per week to maximize field usage.

In addition, Parks & Recreation staff indicated that the rental structure, “could potentially look different at some point in the near future” based upon the recently approved Parks & Recreation Master Plan.

YELLOWSTONE COUNTY YOUTH & AMATEUR SPORTS NEEDS

Swimming - There is significant demand for a new competitive-caliber pool for swim club practice/training and regional meets. The ideal new facility would be at least 50 meters by 25 yards, in order to attract major sports tourism events.

Organization	Sport	Facility(s)	Needs
Montana High School Association	Swimming	N/A	50 meter x 25 yard competitive pool
Billings Aquatic Club	Swimming	RMC Fortin Pool	50 meter x 25 yard competitive pool

Based on feedback from Yellowstone County youth and amateur sports organizations, demand exists for:

- 50-meter x 25-yard competitive swimming pool

IV. COMPARATIVE FACILITIES

COMPARABLE VENUES

Victus Advisors analyzed existing sports facilities located in the comparative markets that were identified by local stakeholders and survey respondents as their most frequent outgoing sports tourism travel destinations. Unless otherwise noted, the sources of information on the following pages were facility management:

- Paul Stock Aquatic & Recreation Center - Cody, WY
- Casper Family Aquatic Center - Casper, WY
- Powell Aquatic Center - Powell, WY
- Campbell County School District Aquatic Center - Gillette, WY



Cody, WY

- Opened: 2001; Owner: City of Cody; Operator: Cody Parks & Recreation
- Cost: \$9.9M (estimated \$17.1M in 2017 dollars*); Funding: 100% private
- Footprint: 71,237 sq. ft. (43,500 sq. ft. aquatic center; 27,757 sq. ft. recreation)
- Features:
 - 3 full-sized basketball courts
 - 8-lane, 25-yard lap pool and a diving board
 - Leisure pool
 - Weight room
- Sample Events:
 - 15-20 high school swim meets per year with spring being the busiest.
 - Facility staff estimate that the whole facility generates up to \$300,000 in annual rental fees from tournaments, practices, and leagues.
- Facility Operator Comments:
 - According to facility staff, the heat exchange system that allowed the aquatic center and Riley Ice Arena to use the same equipment was abandoned almost 10 years ago. They found that it was difficult to regulate heat and cold between the two facilities. Facility staff's recommendation to Yellowstone County stakeholders is to "look at real energy savings" rather than replicate the model that Cody attempted. Facility staff are of the opinion that the costs to have a heat exchange system may outweigh any benefits.
 - Facility staff mentioned that the Powell Swim Club often prefers to use the Paul Stock Aquatic Center as opposed to the Powell Aquatic Center for swim meets.



CASPER FAMILY AQUATIC CENTER

1801 E 4th St., Casper, WY 82601

Casper, WY

- Opened: 2006
- Cost: \$5.2M (estimated \$6.9M in 2017 dollars*)
- Footprint: 23,500 sq. ft.
- Owner: City of Casper; Operator: Casper Recreation
- Features:
 - 4-lane, 25-yard lap pool
 - Family leisure pool
 - Adjacent to Casper Ice Arena
- Events:
 - Swim lessons
 - Open swim
- Casper Swimming Community Needs:
 - The Casper Swim Club commissioned a market demand study in 2012, citing the need for a larger, competitive pool to host regional swim meets. Casper Family Aquatic Center was described as too small for hosting any type of swim meet.



POWELL AQUATIC CENTER

1065 E Coulter Ave., Powell, WY 82435

Powell, WY

- Opened: 2010
- Cost: \$10.4M (estimated \$13.7M in 2017 dollars*)
- Funding: 100% public
- Footprint: 28,000 sq. ft.
- Owner/Operator: City of Powell
- Features:
 - 8-lane, 25-yard lap pool and a diving board
 - 1 recreation pool and lazy river
- Events:
 - Have hosted events for other communities
 - Powell High School Swim Team (8 meets per year)
 - Swim lessons
 - Open swim
- Additional Notes:
 - As shown on the next page, swim programs and club/meet rentals generated over \$160,000 in revenue in the 2016-2017 fiscal year. In addition, the facility generated an additional \$142,000 via admissions and memberships for recreational users (primarily individuals and families).
 - In November 2006, Park County residents voted for a \$1 sales tax increase for a collection of \$9 million for the project, including \$7 million for construction and \$2 million for a maintenance and operations endowment.



POWELL AQUATIC CENTER (CONT.)

	Actual FY 15-16	Actual FY 16-17
Operating Revenues:		
Rental/Swim Groups/Programs	\$179,109	\$160,734
Admission/Memberships	\$122,078	\$142,527
Concessions/Merchandise	\$27,538	\$23,780
Other Revenues	\$650	\$850
Total Revenues:	\$329,374	\$327,891
Operating Expenses:		
Salaries, Wages, & Benefits	\$395,506	\$385,311
Utilities	\$30,691	\$33,353
Maintenance/Repair	\$74,845	\$37,809
Materials/Supplies	\$32,153	\$35,698
Marketing/Other G&A	\$19,302	\$17,807
Total Expenses:	\$552,497	\$509,977
Net Operating Loss:	(\$223,122)	(\$182,086)
Estimated Cost Recovery from Operations:	60%	64%
Endowment Revenue:*	\$58,327	\$42,316
Remaining Operating Loss:	(\$164,795)	(\$139,770)

Source: City of Powell Final Budget for Fiscal Year 2017-2018 Report

* Represents funds drawn from an operating endowment and applied toward the annual operating budget, prior to general funds

In each of the past two fiscal years, the Powell Aquatic Center has generated a cost recovery between 60% and 64%.

In addition it should be noted that an endowment has been established to support the operations of the Aquatic Center. However, in the past two fiscal years that endowment has covered less than 25% of the annual operating losses.

CAMPBELL COUNTY SCHOOL DISTRICT AQUATIC CENTER

800 E Warlow Dr., Gillette, WY 82716

Gillette, WY

- Opened: 1982
- Owner/Operator: Campbell County School District
- Features:
 - 10-lane, 50 meter pool
- Events:
 - Gillette Gators Swim Team meets and practices
 - Campbell County High School Swim Team meets and practices
 - State High School Swim meets
 - Swim lessons for students of Campbell County School District



FACILITY USES

<u>Facility</u>	<u>City, State</u>	<u>Pool</u>	<u>Ice Rink</u>	<u>Multi-Use Fields</u>	<u>Multi-Use Indoor</u>
Campbell County Ice Arena	Gillette, WY		✓		
Campbell County School District Aquatic Center	Gillette, WY	✓			
Casper Aquatic Family Center	Casper, WY	✓			
Casper Ice Arena	Casper, WY		✓		
Fort Missoula Regional Park	Missoula, MT			✓	
Glacier Ice Rink	Missoula, MT		✓		
Haynes Pavilion & Ressler Motors Ice Rink	Bozeman, MT		✓		
Paul Stock Aquatics & Rec Center	Cody, WY	✓			✓
Powell Aquatic Center	Powell, WY	✓			
Riley Arena	Cody, WY		✓		✓
Sanford Pentagon	Sioux Falls, SD				✓
Wyoming Center (Spirit Hall Ice Arena)	Gillette, WY		✓		

Sources: Facility operators; Victus Advisors research

Note: Sorted by Facility in alphabetical order

COMPARATIVE AQUATIC FACILITY NOTES

It is also worth noting that most of the aquatic centers analyzed (with the exception of the Campbell County School District Aquatic Center in Gillette) are still not considered adequate enough for larger-scale meets. Although local Billings swimming clubs have traveled to these facilities for swim meets, Victus Advisors is of the opinion that a larger competitive-caliber aquatic facility in Billings could be a regional draw throughout Montana and the surrounding states.

CONSTRUCTION COSTS PER SQUARE FOOT FOR SELECT AQUATIC FACILITIES

Arena/Ice Center	City, State	Year Open	Project Cost (\$M)	Est. Project Cost in 2017 (\$M)	Square Footage	Est. Cost per S.F. in 2017 (\$M)
Powell Aquatic Center	Powell, WY	2010	\$10.4	\$13.77	28,000	\$492
Casper Aquatic Family Center (1)	Casper, WY	2006	\$5.2	\$6.9	23,500	\$295
Paul Stock Aquatic Center (2)	Cody, WY	2001	\$7.1	\$12.3	43,500	\$282
Average		2006	\$7.6	\$11.0	31,667	\$356
Median		2006	\$7.1	\$12.3	28,000	\$295

Source: Comparable facility data compiled by Victus Advisors

Notes:

(1) Casper Aquatic Family Center is primarily a recreational aquatic facility

(2) Construction cost does not include the attached Paul Stock Recreation Center component

- Facilities listed include comparable venues from Section IV

- Estimated Project Cost in 2017 is calculated according to the Turner Building Cost Index (1996 to Q4 2017)

- Table sorted by Estimated Cost per Square Foot in 2017 construction dollars

V. LOCAL INTERVIEW & FOCUS GROUP SUMMARY

LOCAL INTERVIEWS & FOCUS GROUPS

In November 2017, Big Sky Economic Development and Beartooth RC&D identified participants and scheduled a series of one-on-one interviews and group interviews for Victus Advisors. The goals of these interviews were to gather feedback from key stakeholders and other sports community leaders regarding the amateur sports market and facilities in Yellowstone County. One-on-one interviews were scheduled with key project stakeholders and other high-priority groups, whereas focus group interviews were intended to accommodate a wider variety of community sports organizers. The set of topics and questions were the same for one-on-one and group interviewees, therefore no participants were asked to partake in both types of interview. In all, Victus Advisors engaged with more than 48 local interview participants.

ONE-ON-ONE INTERVIEWS - Victus Advisors interviewed twenty-eight (28) key project stakeholders and community leaders from the following twenty-one (21) organizations:

- AAU Montana Volleyball
- Rocky Mountain College
- MSU Billings
- Billings Public Schools
- Billings Central Catholic High School
- Big Sky State Games
- Billings Aquatic Club
- Billings Parks & Recreation
- Billings Tourism BID
- Billings YMCA
- City of Billings
- MetraPark
- Yellowstone County
- Billings Ice Arena Development Group
- Laurel Aquatic Recreation Complex
- City of Laurel
- Laurel Urban Renewal Agency
- Yellowstone Rim Runners
- 406 Race Series
- South Billings Urban Renewal Assoc.
- Visit Billings

FOCUS GROUPS - In November 2017, Big Sky Economic Development and Beartooth RC&D invited over fifty (50) key local sports community leaders to participate in focus group sessions, with twenty-one (21) people ultimately attending:

Session I: 8 Participants

- Brynn Schwarz - Amend Park Council
- Jason Foster - Billings Scorpions Lacrosse
- Dave Nedrow - Billings United
- Becky King - Elks Tennis Center
- Preston Roberts - Yellowstone Youth Football
- Alex McCready & Sarah Johnson - Figure Skating Club of Billings
- Brad Federenko - Billings Amateur Hockey League/Centennial Ice Arena

Session II: 13 Participants

- Jeff Ballard - American Legion Baseball
- Luke Baker - Men's Rugby Club
- Leslie McCormick - Yellowstone Valley Figure Skating Club
- Tom Potter - Yellowstone Valley Lacrosse
- Fran Reiman - Montana District 1 Softball
- Heather Fink - Riverstone Health
- Melissa Henderson - Healthy By Design
- Bryan Stafford - Big Sky Fencing Association
- Steve Smith - Yellowstone Soccer Association
- John Dahl - Yellowstone Youth Rugby
- Josh Culbertson - Magic City Adult Hockey
- Paige Darden - Billings Tennis Association
- William Henry - Big Sky Ballin' & Open Court

KEY SWIMMING FEEDBACK

- *Swimming* - There is no competitive swimming facility in Billings or Yellowstone County that is capable of hosting large, regional, swim meets:
 - ❑ “The only ‘competitive’ [swim] facility is Rocky [RMC Fortin Center]. Access is limited because of their college sports needs.”
 - ❑ “Billings is the biggest city in Montana, so [it] should be able to do a much better job of hosting large, state-wide [swim] events.”
 - ❑ “Location isn’t a huge deal here [in reference to potential facility location] as long as it’s in Billings.”

VI. EVENT INTERVIEW SUMMARY

In November-December 2017, Victus Advisors conducted fifteen (15) telephone and email interviews with sports event organizers and operators locally, regionally and nationally including:

- Coleman Rockwell, ASA Softball
- Chuck Barthuly, Better Billings Foundation
- Brad Zimmer, Billings Softball Association
- Dave Haglund, Great Northwest Athletic Conference (GNAC)
- Greg Matthews, Billings Force Fastpitch
- Doug Baker, Bases Loaded
- Mark Beckman, Montana High School Association (MHSA)
- Albert Gros-Ventre, Native American Softball Tournament
- Blake Wahrlich, Billings Scorpions Lacrosse
- Adam Hust, Triple Play Academy
- William Henry, Big Sky Ballin'
- Tony Popp, Montana Swimming
- Corinne Shigemoto, USA Judo
- Byron Hicks, USA Ultimate
- Jamie Adams, National Association of Intercollegiate Athletics (NAIA)

YELLOWSTONE COUNTY AMATEUR SPORTS FACILITIES

- *Swimming Facilities -*
 - ❑ One potential user stated that there really is no quality aquatic facility in the state of Montana to host state, regional, or national events. In terms of current pools in Billings, they are inadequate for both competitions and recreational use.
 - ❑ According to a state swimming representative, Billings could benefit greatly from building a 50 meter competitive pool. They felt the facility could be a major draw for state, regional, and even national swim meets.
 - ❑ The Montana Swimming representative feels that a 50M competition pool would be the best in the entire state and region. As a result, Billings could host multiple state and regional swim meets.

SUMMARY OF FACILITY NEEDS

<u>Sport</u>	<u>New Facility</u>	<u>Expanded/Improved Facilities</u>
Baseball/Softball		✓
Basketball	✓	
Figure Skating	✓	
Hockey	✓	
Lacrosse		✓
Rugby		✓
Soccer		✓
Swimming	✓	
Volleyball	✓	

Note: Sorted by Sport in alphabetical order

FACILITY NEEDS - SWIMMING

In speaking with local, regional, and national clubs and event organizers, Victus found that Swimming groups feel that the current facilities in Yellowstone County are not meeting demand. With new facilities, local swim groups would have access to more practices and games. In addition local clubs and regional/national event organizers can either expand existing meets or create new ones because of a new facility.

VII. SPORTS COMMUNITY SURVEY RESULTS

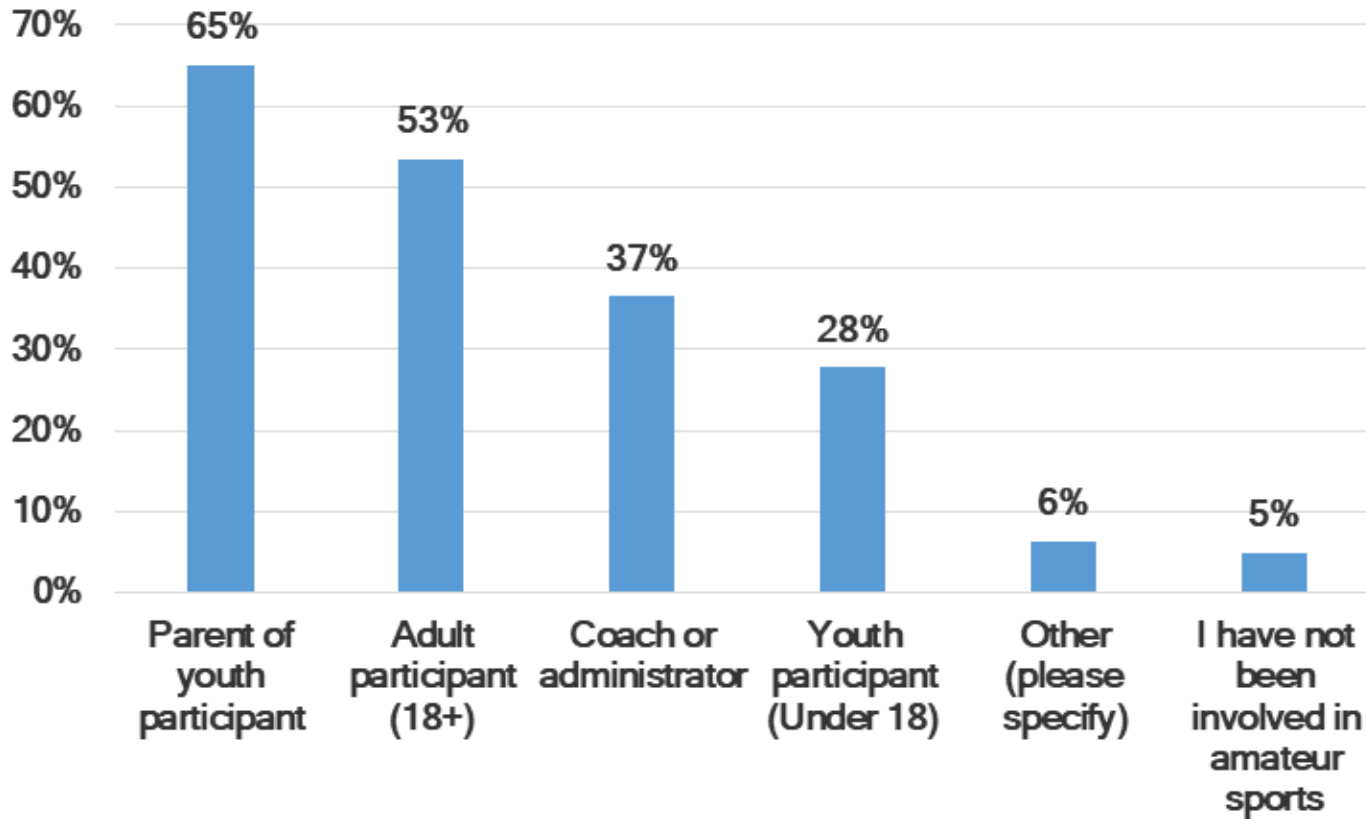
In addition to meetings and interviews, in November 2017, Victus Advisors also conducted online surveys with 843 local parents, participants, coaches, and other such members of the amateur sports community in the Yellowstone County area. The survey margin of error based upon 843 respondents and the County's population of 163,372 is +/- 3.0% (with a 95% confidence interval).

Survey topics included:

- General demographic information
- Sports and recreation facilities frequented in the Yellowstone County area
- General attitudes toward amateur sports in Yellowstone County
- Ideal features of amateur sports host cities and facilities

- 50% Male, 50% Female
- 92% between the ages of 25 and 64
 - ❑ 57% age 25 to 44, 35% age 45 to 64
- 92% White, 2% Hispanic, 3% Multiracial, 2% Other, 1% Asian
- Median Household Income: \$75,000 - \$100,000
- 67% live in a household with children under 18
 - ❑ Median # of children in household: 3
- 93% live in a household where at least one member has participated in Yellowstone County amateur sports

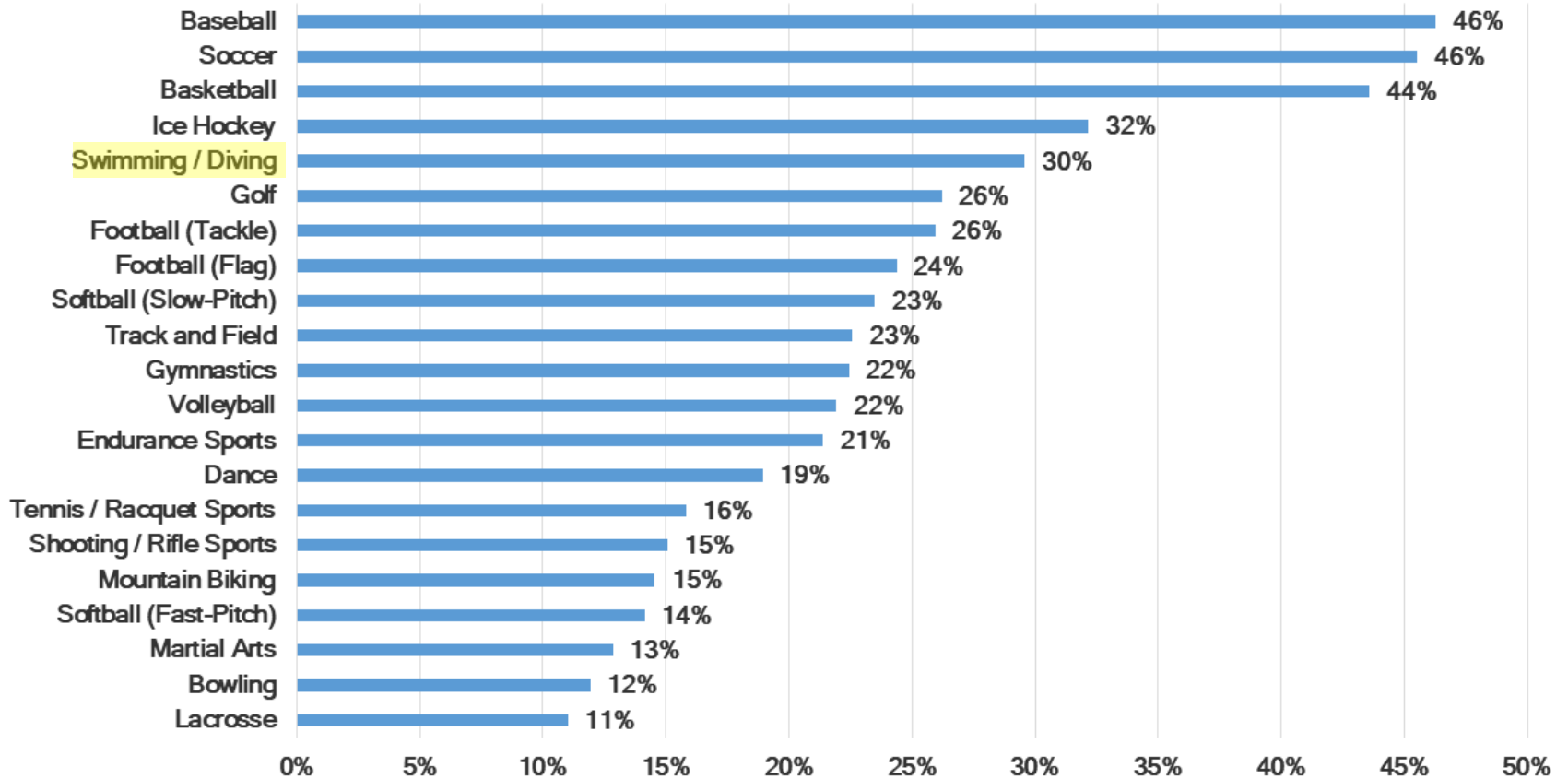
AMATEUR SPORTS INVOLVEMENT BY ROLE



Note: Sorted by Role score in descending order; Respondents were allowed to select more than one response

65% of the respondents were parents of youth sports participants, and more than 35% were either coaches or adult sports participants.

AMATEUR SPORTS INVOLVEMENT BY SPORT

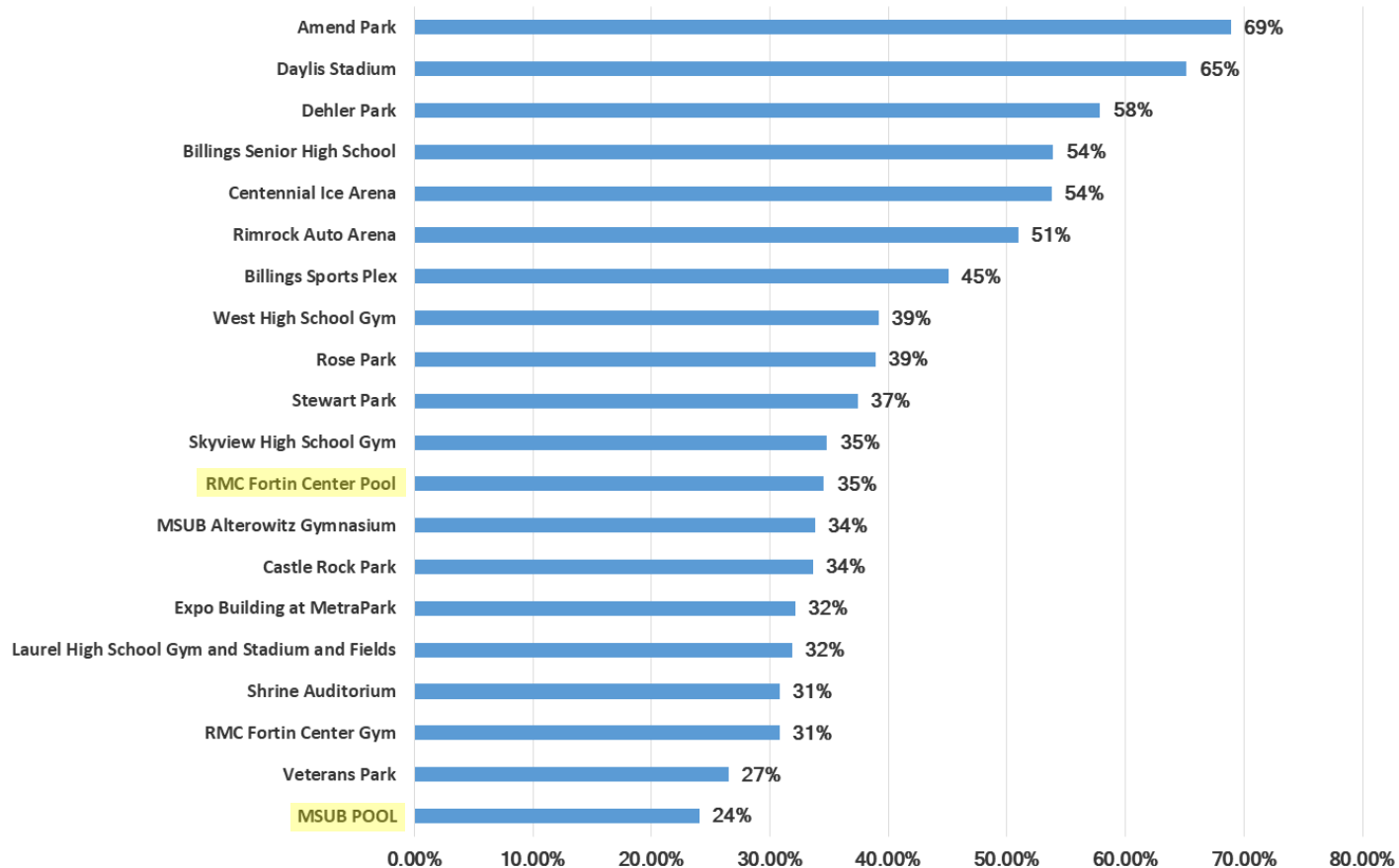


Note: Sorted by Sport score in descending order; Sports shown above were selected by a minimum of 10% of respondents

Baseball, Soccer, Basketball, Hockey, and Swimming were the sports that survey respondents were most involved with in Yellowstone County.

YELLOWSTONE COUNTY SPORTS FACILITIES

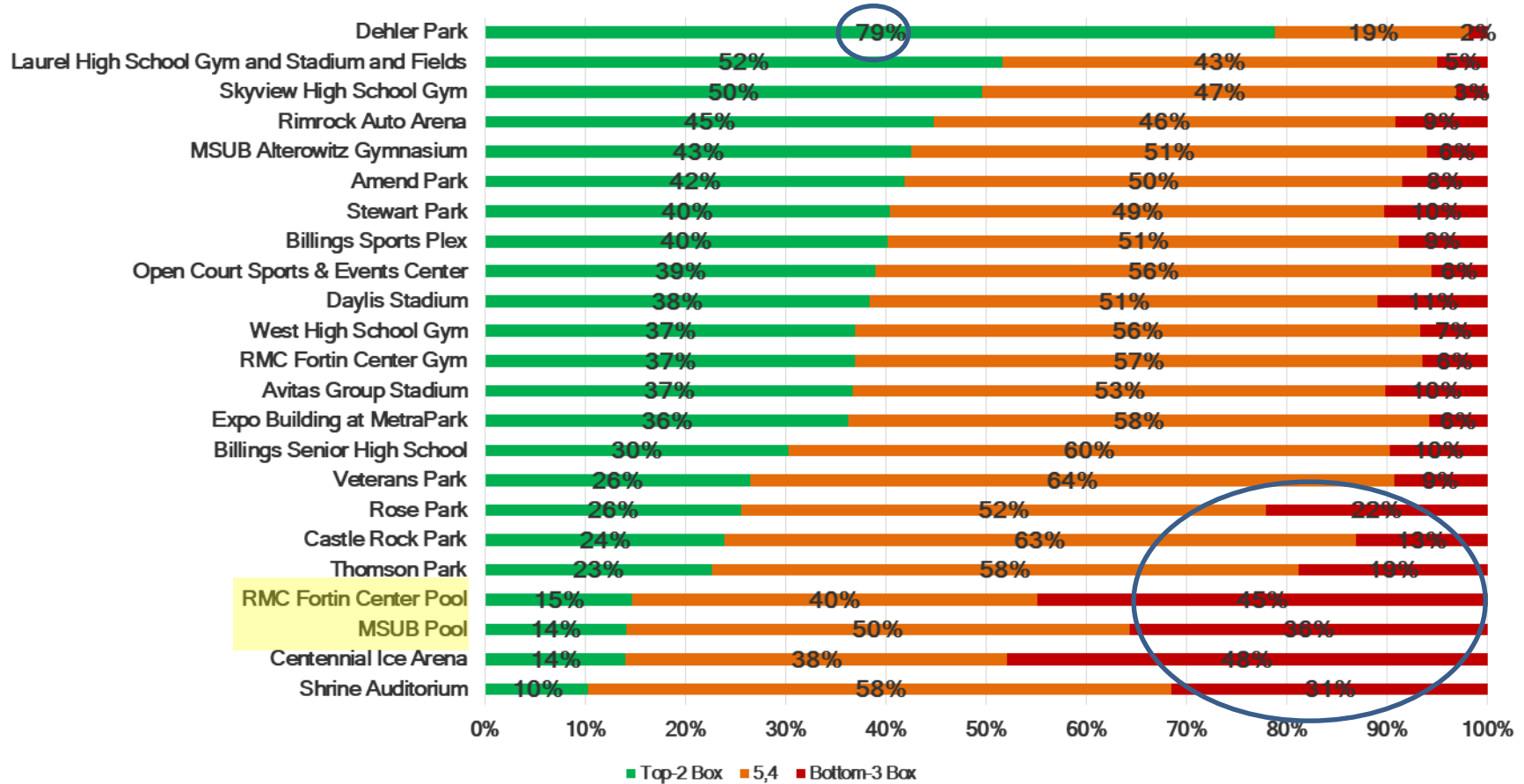
Have you ever attended/participated at an event at the following Yellowstone County amateur sports facilities?



*Note: (1) Sorted by Sports Facility score in descending order
 (2) Only facilities that were visited by more than 20% of respondents were listed*

SATISFACTION WITH YELLOWSTONE COUNTY SPORTS FACILITIES

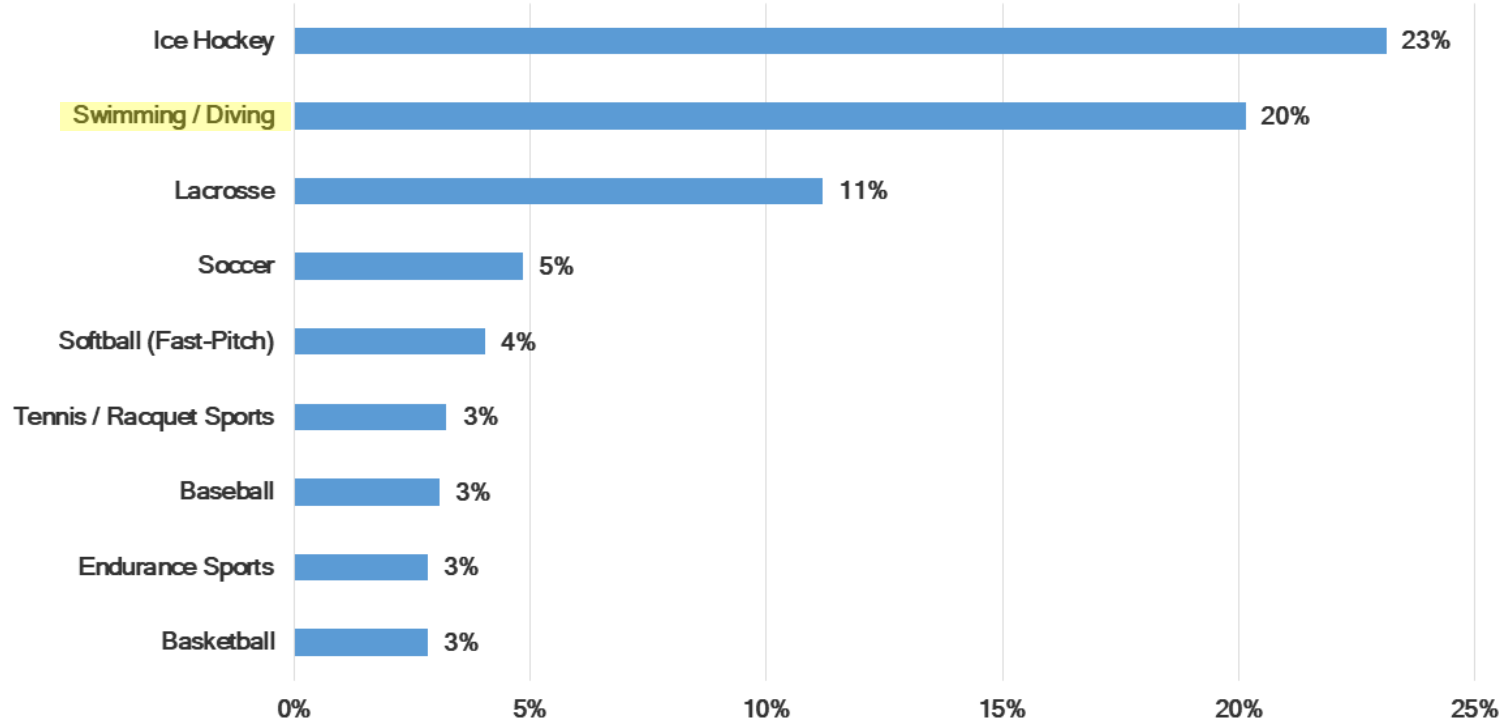
Dehler Park had the highest satisfaction rating at 79%, the only facility in the County to receive an “above average” rating. It is also worth noting that RMC Fortin Center Pool and MSUB Pool were among the lowest rated facilities in the County.



Note: Sorted by Top-2 Box score in descending order

EMERGING SPORTS

Which emerging or underserved sports have the most potential in Yellowstone County?



Note: Sorted by Sports score in descending order

Swimming was identified as one of the sports with the most potential in Yellowstone County. As participation and interest increases over time, more pools will need to be available to meet demand.

VERBATIM SURVEY COMMENT

- “I’m astonished based on the size of Billings and having lived in many places that we do not have an indoor public pool. I think the community would benefit from a multi use sports facility that includes an indoor pool that could be used for competitions as well as have a indoor splash pad.”

VIII. SPORTS MARKET OPPORTUNITIES & FACILITY CONCEPT RECOMMENDATIONS

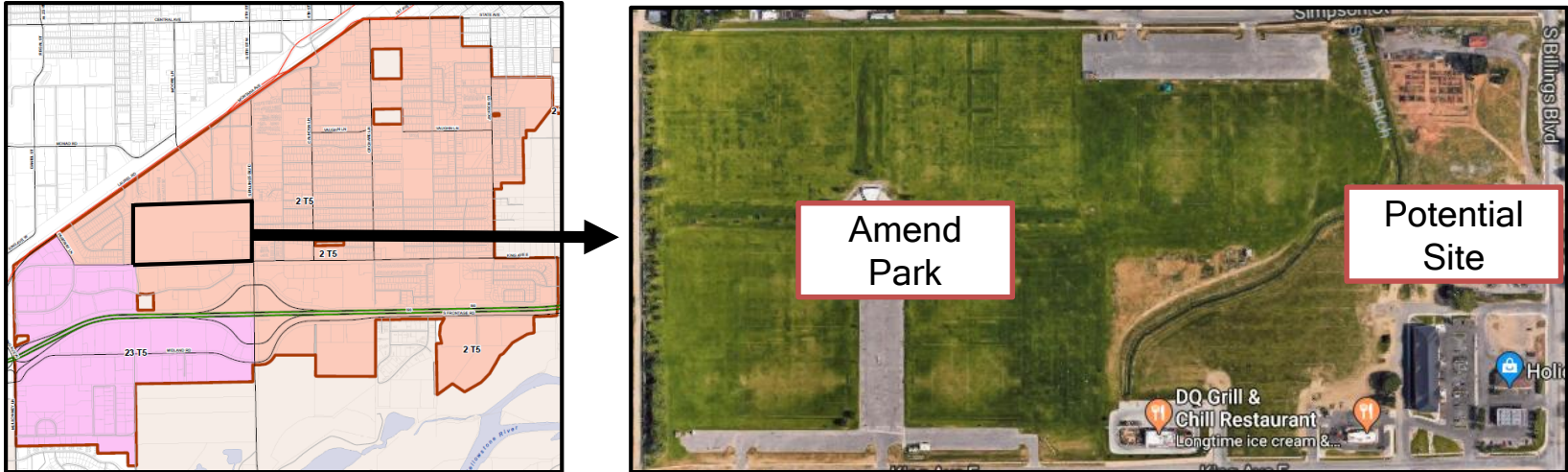
Key Strengths of the Yellowstone County Sports Tourism Market:

- Feedback from interviews, focus groups, and survey respondents indicate that organizations like Visit Billings are doing a great job at facilitating events in spite of the lack of quality facilities.
- Visit Billings and the Chamber of Commerce in particular have done a great job of engaging sports event visitors and participants. One focus group member recalled businesses arriving at the airport to greet travelers as they arrived which was perceived as a “personal touch”.
- Yellowstone County’s relatively affordable lodging rates also make the County a more desirable sports tourism destination as opposed to other destinations such as Jackson Hole. In addition the County has nearly 5,000 available hotel rooms.
- There are many affordable family dining, retail, and lodging options available in the Billings area, as Billings is a regional hub for such activity.
- The Billings MSA is the most populous market within an approximately 8-hour drive. As a result, it is a regional and commercial hub for residents of Montana, Idaho, Wyoming, North Dakota, and South Dakota. New and/or expanded facilities could be a catalyst for Yellowstone County and make it the primary sports tourism destination in the region.

Potential Weaknesses of the Yellowstone County Sports Tourism Market:

- Yellowstone County has a significant lack of large, indoor, dedicated sports facilities for competitive sports activity.
- There is significant seasonality in the County's amateur sports tourism schedule, with November through March showing the lowest activity levels. Key factors in terms of missed sports tourism opportunities outside the summer months include:
 - ❑ Winter - the County lacks indoor, tournament-caliber facilities for basketball/volleyball, swimming, and ice sports.
 - ❑ Fall/Spring - Amend Park lacks lights and artificial turf fields that could extend both the daily usage and shoulder season usage for outdoor sports.
- Many local groups have expressed frustration with Billings Parks & Recreation's management of many of the City-owned sports facilities. As a result many groups privately maintain the fields (e.g. Amend Park and Stewart Park) under operating agreements that also provide priority access.
- Any new or expanded facilities would likely require some sort of public financial support via taxes or another mechanism. Based upon Victus' conversations with stakeholder groups and local government officials, public funding may not be feasible if it requires voter approval of a tax increase. There is no sales tax in Montana, and there seems to be minimal tolerance for potential property tax increases in the County. This could be a considerable stumbling block for any sports facility development project in the County, as most sports tourism-caliber facilities throughout the country are developed and/or operated with significant financial support from local government sources.

MARKET OPPORTUNITY: SOUTH BILLINGS URBAN RENEWAL ASSOCIATION



Sources: South Billings Urban Renewal Association, Google Maps

Various stakeholders and local users recommended that sports facility development should be centrally located within the County. More specifically the western and southern areas of Billings were identified as ideal locations due to population and commercial growth, in addition to available land.

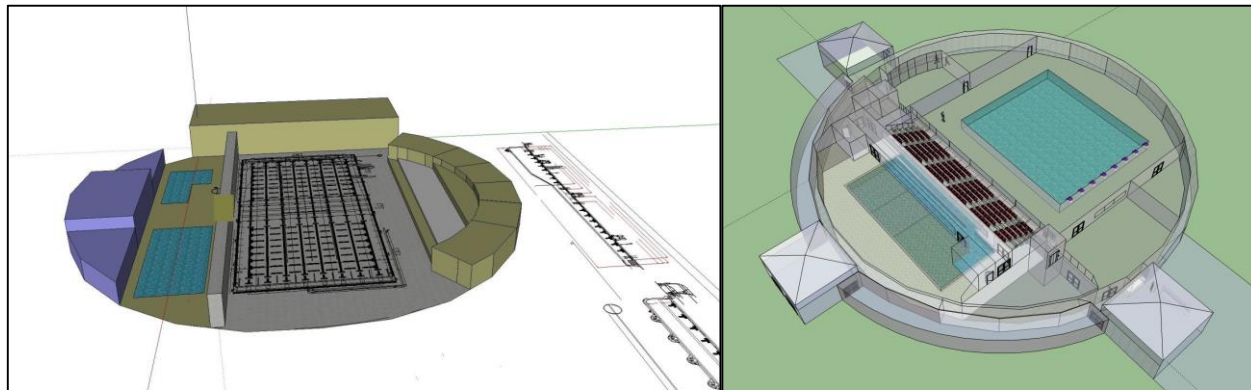
After meeting with South Billings Urban Renewal Association (SBURA), Victus Advisors learned that there are up to 10.1 acres of land potentially available next to Amend Park. Additionally SBURA is willing to invest in a facility (or multiple facilities) with available cash on hand to be leveraged with other potential sources of funding. The primary caveat is that the facilities would have to be publicly owned if SBURA were to pay for construction costs, however the facilities could still be privately operated (via contract or non-profit management) so as not to impact City operating budgets. Lastly, SBURA believes that indoor sports tourism facilities could be the number one priority for the Association, and that a decision to invest in such a project could be made within a matter of months.

As a result, Victus Advisors believes that locating one or more indoor sports facilities within SBURA's district may be a financially feasible option for constructing new sports venues in the County without the need for a mill levy vote. From SBURA's perspective, in addition to their contributions, a private fundraising goal of roughly 24% to 30% per project scenario is their target.

FACILITY CONCEPT: COMPETITIVE SWIM CENTER

Recommendation:

- There is significant demand for a competitive-caliber indoor aquatic facility in Yellowstone County. Demand exists for a swim center capable of hosting regional/national swim meets year-round (50M competitive pool, at least eight (8) lanes, etc.).
- Based on a review of the enterprise plan completed for Billings Aquatic Club by USA Swimming, it is estimated that a 45,000 square foot competitive swim center (as shown below) could be built for approximately \$20.4 million (more than \$450 per sq. ft., prior to land costs and exterior infrastructure)*. Furthermore, the recent Parks and Recreation Master Plan for the City of Billings estimated that a new aquatic facility could cost between \$400 and \$500 per sq. ft.



Rationale:

Source: USA Swimming, Enterprise Plan for a New Aquatic Center in Billings

- Although there are a few indoor and outdoor aquatic facilities in the County, the ability to host competitive swim meets is limited. A competitive indoor swim facility in Billings could drive significant economic impact to the County for regional competitive events both in the state and in the region.

** Note: It is recommended that detailed square footages and construction cost estimates should be developed by project architects and engineers.*

FACILITY CONCEPT: COMPETITIVE SWIM CENTER (CONT.)

Additional Comments:

- It is important to note the difference between a competitive swim center (as recommended herein) and an indoor recreation aquatic center:
 - ❑ A recreation/leisure pool will often times have slides and other family-friendly features and would not be able to host any type of competitive swim meet.
 - ❑ Based upon our one-on-one interview with Billings Aquatic Club, their ideal competitive swim center should feature:
 - Eight (8) to 10 long course lanes (convertible to up to 26 short course lanes)
 - 50 meter by 25 yard pool dimensions
 - Spectator seating capacity (500+ seats)
 - Small, shallow lesson pool (for warm water therapy, etc.)
 - ❑ If an aquatic center were built to accommodate both competitive and recreational use, a significantly larger and more expensive aquatic center would have to be built to provide both competitive and recreational pool areas.
 - ❑ In addition, it should be noted that a public swim facility could have limited local/recreational access during large, competitive, weekend meets that utilize the entire facility.
- Lastly, if the proposed long course swim center is deemed too cost prohibitive, a smaller facility comparable to Powell Aquatic Center in Powell, Wyoming (constructed for an estimated \$13.7 million in 2017 construction dollars) could be considered as an alternative. It should be noted that a smaller facility would not be capable of hosting long course meets, however it could meet the year-round practice needs of Billings Aquatic Club, as well as provide a superior option relative to the existing pool inventory in Yellowstone County for competitive short course meets. However, if hosting long course meets remains a priority, another more affordable option could be to consider expansion of Rose Park as a usable outdoor pool for long course season.

IX. FACILITY UTILIZATION & FINANCIAL PROJECTIONS

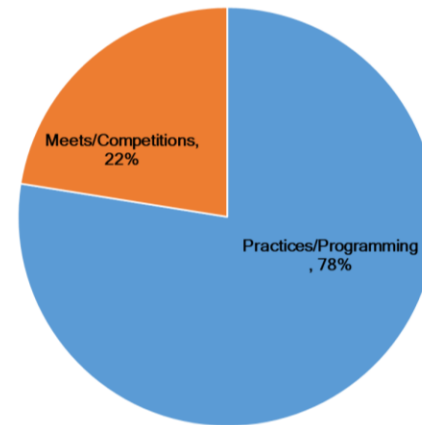
DISCLAIMER

Disclaimer: When reviewing this section of the report, please note that the following projections are based on specific sets of assumptions for each facility type that were derived from various sources, including but not limited to stakeholder and sports community input, comparable facility data, Yellowstone County market factors, and Victus Advisors' sports facility industry experience. This utilization and financial operations analysis has been completed during the pre-planning stages of potential future facility development, and as such, all facility assumptions in this section should be considered as preliminary estimates only. The facility features and square footages, which will significantly affect both the construction costs and operational outcomes of each facility, will ultimately be based upon future site-specific designs developed by project architects and engineers in conjunction with community stakeholders. In future planning phases, project stakeholders will need to determine the scale and purpose of the proposed facilities, such as: site viability, competitive vs. recreational programming, ancillary amenities, capacity to raise funds publicly versus privately, etc.

COMPETITIVE SWIM CENTER EST. ANNUAL UTILIZATION - BY TYPE

It is estimated that the competitive swim center could host approximately 25 annual meets/competitions, primarily weekend events, accounting for approximately 22% of the facility's usage hours. It should be noted that practices/leagues would primarily be local residents (Monday-Thursday), while meets/competitions would draw athletes and spectators from outside Yellowstone County (Friday-Sunday).

<u>Event</u>	<u>Facility Hours</u>
Practices/Programming	3,900
Meets/Competitions	1,130
TOTAL	5,030



Note: Sorted by Facility Hours in descending order

Estimated Annual Meets/Competitions: 25

Total Estimated Annual Visits: 110,660*

**Notes: (1) Includes estimated athletes, officials, coaches, parents/family, spectators, etc.
(2) Represents unique daily visits. For example, if an athlete participated in practices on a Tuesday and a Thursday one week, that would count as two (2) unique visits that week.*

COMPETITIVE SWIM CENTER OPERATING PROJECTIONS - KEY ASSUMPTIONS

The following key assumptions were utilized by Victus Advisors in order to develop operating and financial projections for the proposed competitive swim center in Yellowstone County:

- The aquatic center would be approximately 45,000 sq. ft. (based upon the total estimated building footprint provided by USA Swimming in their Enterprise Plan for a New Aquatic Center in Billings) and have the following features as outlined by Billings Aquatic Club during their one-on-one interview with Victus Advisors:
 - ❑ Eight (8) to 10 long course lanes (convertible to up to 26 short course lanes)
 - ❑ 50 meter by 25 yard pool dimensions
 - ❑ Spectator seating capacity (500+ seats)
 - ❑ Small, shallow lesson pool (for warm water therapy, etc.)
- Please note: The competitive swim center would not have a recreation component (e.g. slides and other family-friendly features).
- Financial projections have been developed for the aquatic center and are based on estimated programming, practice, and swim meet usage.
- The aquatic center is likely to be operated by a public entity, with public revenue sources (and/or private endowment funds) dedicated to cover annual operating losses.
- No assumptions have been made yet for debt service or capital improvement funds.
- The facility will offer competitive rental rates and will aggressively market to club teams, local and regional/national swim meets.
- These projections are based on current market circumstances, and thus assume that there will be no other major changes to the available aquatic facility inventory within Yellowstone County.
- The financial projections displayed on the following page utilize a variety of additional assumptions, including data gathered from third-party sources, information provided by stakeholders and various local municipalities, and Victus Advisors' industry experience. There will be differences between these projections and actual events, and these differences may be material.

COMPETITIVE SWIM CENTER FINANCIALS - STABILIZED YEAR OF OPERATIONS

In a stabilized year of operations, it is estimated that the operations of a competitive swim center would generate a cost recovery of 63% meaning that the facility could need annual subsidies of over \$410,000.

A description of each revenue/expense estimate is provided on the following pages.

	Stabilized Year
Operating Revenues:	
Swim Programs (Clubs, Lessons, etc.)	\$351,000
Rental Income	\$204,880
Concessions & Merchandise (Net)	\$92,120
Advertising & Sponsorship	\$39,600
Other (1)	\$10,000
Total Revenues:	\$697,600
Operating Expenses:	
Salaries, Wages, & Benefits	\$622,500
Program Expenses	\$187,200
Utilities & Chemicals	\$143,100
General & Administrative	\$85,950
Materials/Supplies	\$48,047
Maintenance/Repair	\$24,000
Total Expenses:	\$1,110,797
Net Income (Loss):	(\$413,197)
Estimated Cost Recovery:	63%

Notes: Presented in 2018 dollars. Stabilized year is typically achieved by third year. Operating revenue categories are based upon a competitive swimming facility model, where revenue is primarily generated via swimming programs and facility rentals, rather than a recreational admissions/memberships model.

(1) Please see page 202

COMPETITIVE SWIM CENTER LONG-TERM CAPITAL NEEDS

Capital Reserve Funding:

Capital Reserve Funding: 0.50%										
Operating Year:	1	2	3	4	5	10	15	20	25	30
Cumulative Capital Reserve Contributions	\$100,000	\$203,000	\$309,090	\$418,363	\$530,914	\$1,146,388	\$1,859,891	\$2,687,037	\$3,645,926	\$4,757,542

Notes:

(1) 0.50% reserve funding scenario represents 0.50% of estimated facility construction costs, plus 3% annual inflation, contributed annually to a capital reserve fund.

(2) Cumulative Capital Reserve is a conservative calculation of potential available funds, as no assumptions have been made for potential returns from holding Reserve Funds in an investment account or interest-bearing account.

Current industry best practices for long-term capital needs is to annually contribute an amount equal to at least 0.5% of facility construction costs (\$20 million), or approximately \$100,000 in Year 1, increased annually for inflation to a reserve fund. This capital reserve fund can be drawn upon by facility owners/operators to pay for necessary capital maintenance and improvements as the facility ages.

Operating Subsidy:

Estimated Annual Operating Losses:	\$413,197
Typical Useful Life of a Sports Facility:	25
Total Long-Term Operating Losses:*	\$15,064,859
Net Present Value of Operating Losses:**	\$7,885,897

* Assumes 3% annual inflation

** Assumes 5% discount rate

At full build-out, the proposed competitive swim center is estimated to generate an annual operating loss, requiring as much as \$15 million in operating subsidies over 25 years. As a result, a long-term capital reserve fund with a net present value of as much as \$7.9 million should be established to subsidize the operations of the facility.

COMPETITIVE SWIM CENTER REVENUES

Revenue generated by the proposed competitive swim center could consist primarily of program revenue, rental income, concessions/merchandise, and advertising. A brief description of each potential revenue source is provided below.

Facility Programming (Clubs, lessons, etc.)

Programming consists of swim clubs, learn to swim programs, aerobics, etc., organized by the facility operator, with revenue primarily consisting of registration fees and admission for drop-in swim, aerobics, etc. We have assumed that individual registration fees for learn to swim, aerobic classes, and other swim programs could range between \$30 and \$60 per month on average.

Rental Income

Rentals typically occur when outside groups rent lane space/time for practices and swim meets. We have conservatively assumed, based on comparative facilities nationwide that average rental rates would be approximately \$200 per hour for peak times (Friday-Sunday) and \$125 per hour for non-peak times. The actual rates would ultimately vary on particular dates/times based on volume rented by groups and clubs.

Concessions/Merchandise

Concessions and merchandise revenue consists of sales of various food and beverage items as well as sports equipment and apparel at various points-of-sale at the facility. Revenue assumptions are based on estimated usage and attendance, and comparable per capita spending from swim facilities across the country (approximately \$1-\$3 per visitor per day).

COMPETITIVE SWIM CENTER REVENUES (CONT.)

Advertising & Sponsorship

Advertising and sponsorship revenues are assumed to be derived from the sale of wall banners (\$400 per banner), permanent signage (\$800 per sign), scoreboard signage (\$2,000 per scoreboard), and presenting/founding level partnerships (\$10,000 per founding partner). Overall, we have conservatively assumed that approximately 75% of the available inventory would be sold.

Other Revenue

Other revenue opportunities would primarily consist of any equipment rental fees or other special services charges, as well as any potential parking fees charged for major swim meets and events. We have conservatively projected up to \$10,000 in other annual revenues.

COMPETITIVE SWIM CENTER EXPENSES

Operating expenses for the proposed competitive swim center could include salaries, wages, benefits, operations and programming costs, utilities/chemicals, and other expenses. A brief description of each potential major source of expense is provided below.

Salaries, Wages & Benefits

Based upon comparable venues, we have assumed that the swim center would have approximately six (6) full-time equivalent employees, which includes a General Manager (\$80,000 salary), Aquatics Director (\$65,000 salary), Business Operations Director (\$65,000 salary), Aquatics Coordinator (\$45,000), and two Maintenance and Custodial staff (\$35,000 salary). In addition we have assumed benefits for each would equal 30% of salary. Lastly, we have assumed approximately \$200,000 a year in part-time/seasonal hours.

Program Expenses

Victus Advisors typically assumes that expenses related to operating programs at an indoor sports venue represent a variable cost that equals approximately 70% of sports programming revenues, based upon the level of programming opportunities provided. However, in this case, we have assumed that the swim center would have a full-time Aquatic Programs Coordinator, and we have reduced the estimated programming expenses accordingly.

Utilities & Chemicals

Utilities often represent one of the largest expenses incurred by facility operators. Cost estimates for utilities include use of electricity, gas, water, and steam, and are based upon comparable utility costs per square foot at similar facilities. In addition, pool water maintenance requires regular application of disinfectant chemicals, typically including chlorine and bromine.

COMPETITIVE SWIM CENTER EXPENSES (CONT.)

Other Expenses

Other expenses expected to be incurred by the proposed swim facility include general and administrative expenses, repairs and maintenance, materials and supplies, marketing/advertising costs, insurance, and other such expenses, as described below:

- Maintenance and repairs for structures, equipment, grounds, etc.
- Materials and supplies for administration and operations of the facility
- General liability insurance to cover the grounds, restrooms, and other such areas
(Note: we have assumed that events and user groups would also be required to carry their own liability insurance specific to their activities at the facility, in addition to the insurance carried by the facility)
- Office and administrative expenses, including but not limited to marketing and advertising, telecommunications, travel costs, permits, service fees, and other such operating expenses

These expenses have been estimated based upon expenses at comparable swim venues.

X. ECONOMIC & FISCAL IMPACT ANALYSIS

1. ESTIMATE GROSS DIRECT SPENDING

The first step in projecting the potential economic and fiscal impacts of a new sports facility is estimating the Gross Direct Spending activity that could occur due to both the one-time construction and ongoing operations of the facility.

Gross Direct Spending represents all of the direct spending that could be associated with the project, regardless of income source or spending location.

Primary Sources of Direct Spending from Yellowstone County Sports Facility Development

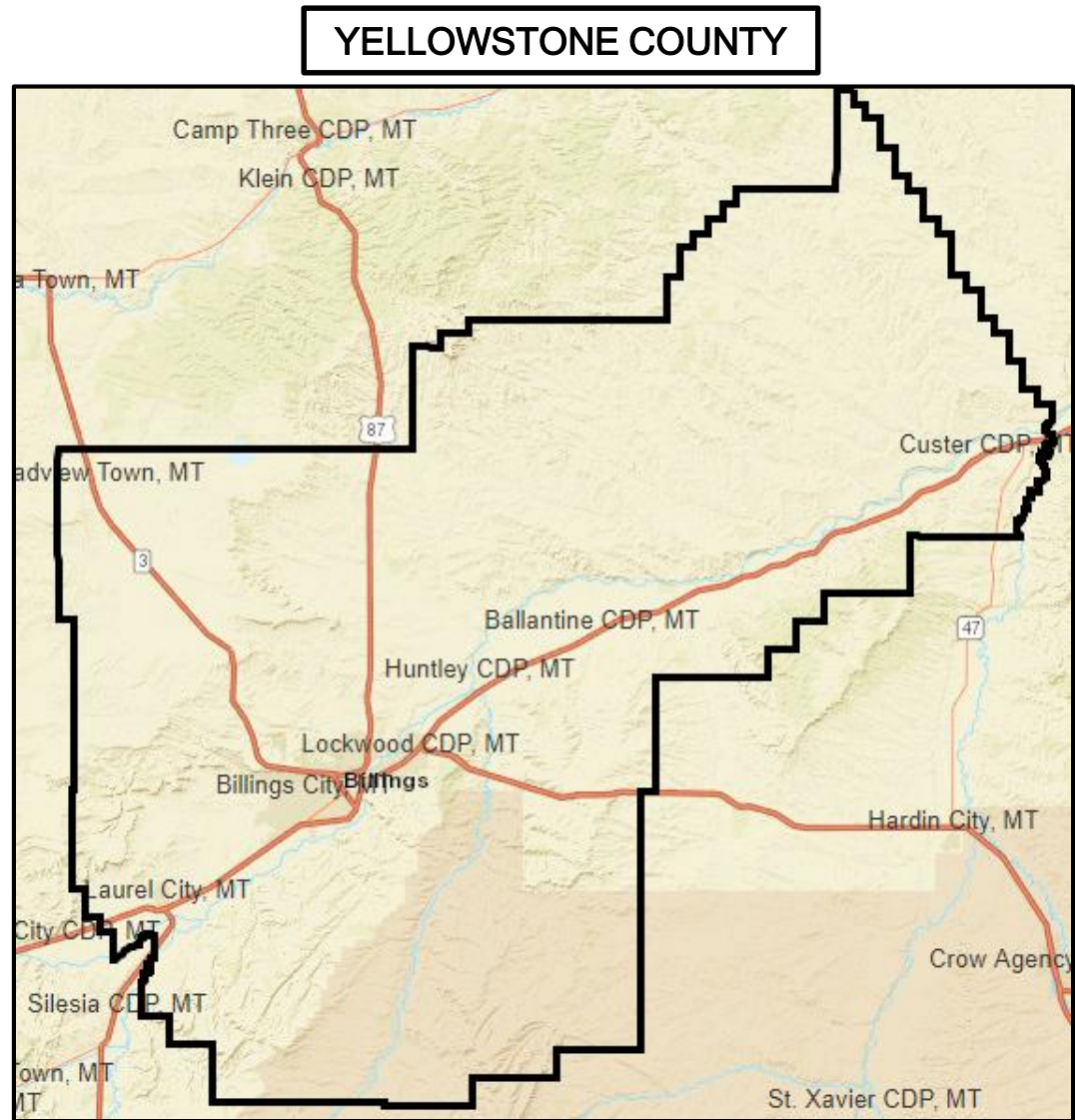
One-Time Construction Expenditures	Ongoing Facility Operations	
Supplies & Materials Labor Costs Service Fees	<i>In-Facility Revenues:</i> Rent and/or Gate Fees Event Revenues (Tournaments, etc.) Concessions/Merchandise Sponsorships/Advertising	<i>Visitor Spending:</i> Lodging Restaurants/Bars Entertainment Retail Transportation

2. IDENTIFY “LOCAL” ECONOMY

For purposes of this study, Victus Advisors has been tasked with identifying the potential economic and fiscal impacts on Yellowstone County. Therefore, the local economy studied in this analysis is the physical area solely within the County limits of Yellowstone (as highlighted at right).

As described on the next page, “Net” Direct Spending only occurs when the spending source originates outside of County limits and occurs within the County’s limits, which most often occurs during tournaments, as well as during some league games. Local practices typically do not drive economic impacts.

Victus Advisors has assumed that any facility would be located in Billings in order to minimize economic leakage and ensure Yellowstone County fully captures the economic impacts from sports facility visitors.



Source: Esri

3. IDENTIFY GROSS VS. NET IMPACTS

After estimating the “Gross” economic activity associated with sports facility development, Victus Advisors estimated the portion of Gross Direct Spending that could represent incremental (or “Net”) spending within the County’s economy. Net Direct Spending accounts for the phenomenon of “displacement”, as described below.

DISPLACEMENT is the economic principle that assumes a household (or business) entertainment and recreation budget would be spent within the local economy with or without development of a new sports venue.



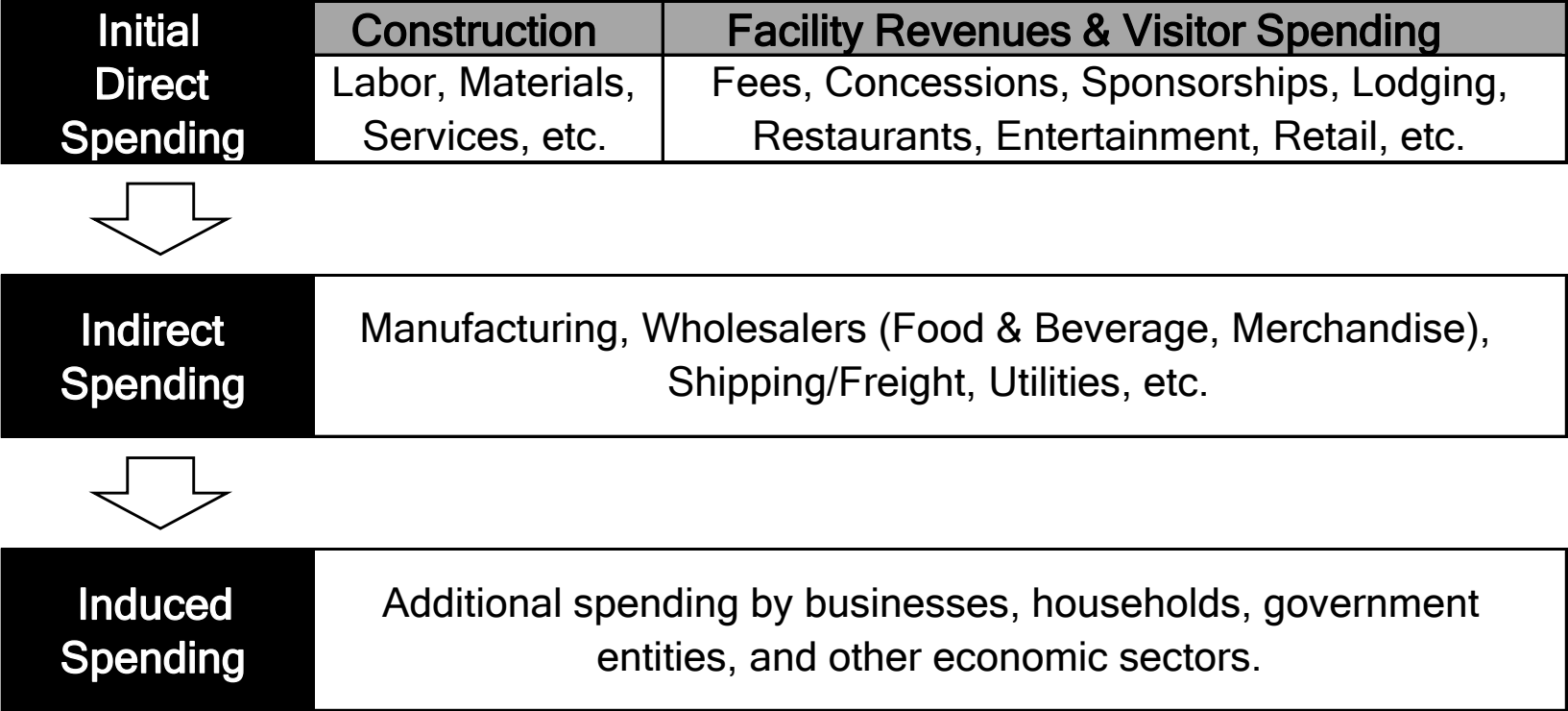
For purposes of this study, we have assumed that local sports spending would be displaced (i.e. spent elsewhere within the Yellowstone County economy) without the presence of a new sports facility. Therefore...



NET IMPACTS will only include the estimated dollars spent within County limits by non-resident visitors & businesses who come for regional tournament activity.

4. THE MULTIPLIER EFFECT

Net Direct Spending that is captured in Yellowstone County is subsequently re-spent, both inside and outside the local economy. The cumulative impact of the re-spending cycles that occur within Yellowstone County limits is called the “Multiplier Effect”.



4. THE MULTIPLIER EFFECT (CONT.)

Victus Advisors utilized IMPLAN Multipliers specific to Yellowstone County (shown below) to estimate the following **Net Economic Impacts**:

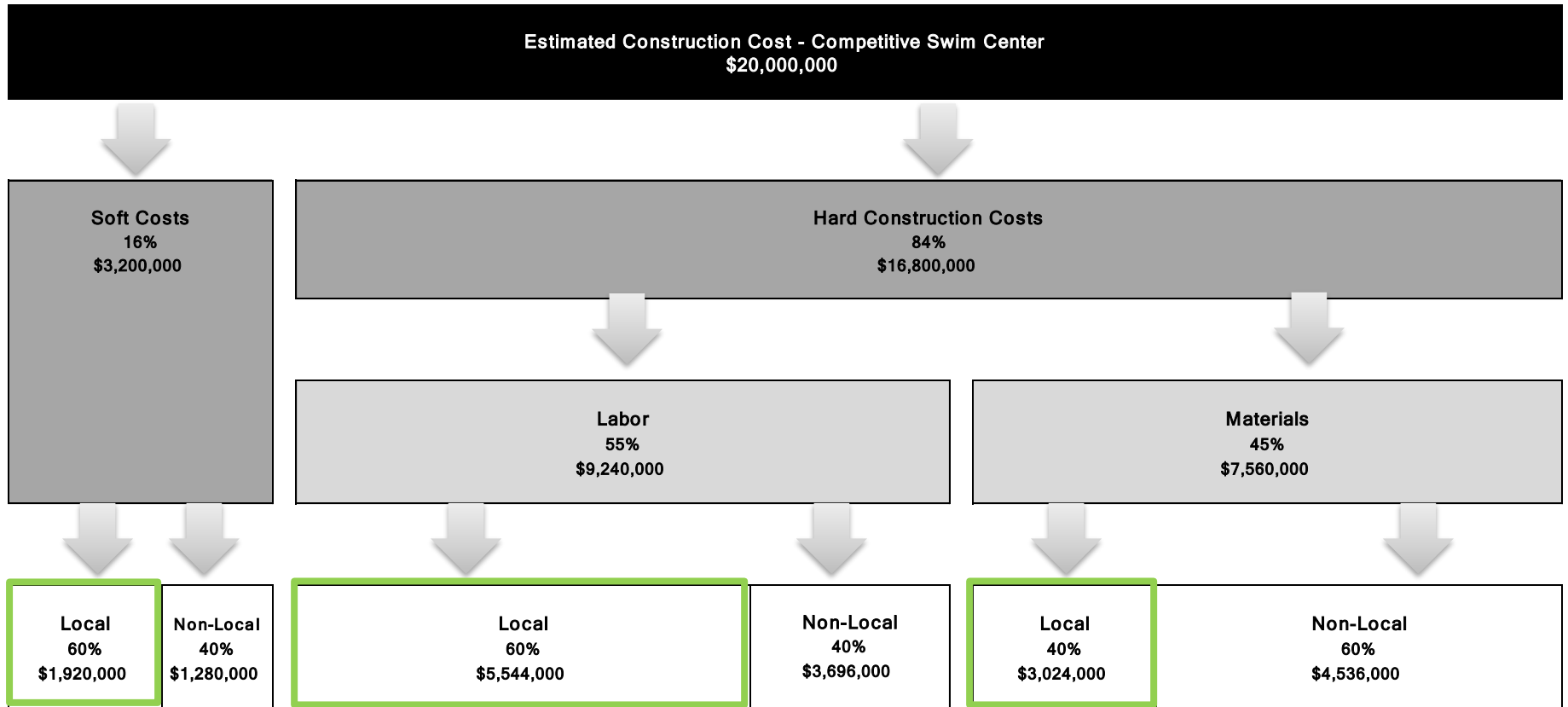
- **TOTAL OUTPUT** (direct, indirect & induced spending in Yellowstone County)
- **EMPLOYMENT** (full-time & part-time jobs in Yellowstone County)
- **LABOR INCOME** (salaries & wages associated with Yellowstone County jobs)

IMPLAN MULTIPLIERS - YELLOWSTONE COUNTY, MT

Industry	Total Output Multiplier	Employment Multiplier	Labor Income Multiplier
Construction - Non Residential	1.65790	1.2220×10^{-5}	0.64318
Retail Stores	1.92951	3.0777×10^{-5}	0.95778
Transit & Ground Passenger Transportation	1.83588	2.0561×10^{-5}	0.69355
Fitness & Recreational Sports Centers	1.92223	3.5545×10^{-5}	0.62528
Amusement & Recreation Industries	1.82871	2.5916×10^{-5}	0.63693
Hotels & Motels, Including Casino Hotels	1.68183	1.6705×10^{-5}	0.49849
Food Service & Drinking Places	1.76885	2.0957×10^{-5}	0.72782

CONSTRUCTION IMPACT ASSUMPTIONS: COMPETITIVE SWIM CENTER

Based upon a preliminary estimated construction cost for a competitive swim center of approximately \$20.0 million*, Victus Advisors estimates that approximately \$10.5 million of direct construction expenditures will occur within Yellowstone County.



Note: "Local" refers to Yellowstone County

* This preliminary construction cost estimate is based solely upon total construction costs per sq. ft. for comparable facilities. Detailed, site-specific, square footages and construction cost estimates should be developed by project architects and cost engineers in future facility planning phases.

ESTIMATED ONE-TIME CONSTRUCTION IMPACT

Project	CONSTRUCTION SPENDING		ECONOMIC IMPACTS		
	Construction Spending - Preliminary Estimate	Estimated Local Direct Spending	Total Output	Employment	Labor Income
Indoor Sports Center	\$10,000,000	\$5,244,000	\$8,694,000	64	\$3,373,000
2-Sheet Ice Arena	\$15,000,000	\$7,866,000	\$13,041,000	96	\$5,059,000
Competitive Swim Center	\$20,000,000	\$10,488,000	\$17,388,000	128	\$6,746,000
TOTAL	\$45,000,000	\$23,598,000	\$39,123,000	288	\$15,178,000

Note: (1) Sorted by Construction Spending - Preliminary estimate in ascending order

(2) Represents one-time impacts of construction expenditures within Yellowstone County. Presented in 2018 dollars.

Victus Advisors estimates that direct one-time construction expenditures within Yellowstone County for a new competitive swim center could generate over \$17 million in total economic output, 128 short-term jobs, and approximately \$6.7 million in wages.

ESTIMATED ANNUAL OPERATIONS IMPACT

Project	VISITATION & SPENDING		ANNUAL ECONOMIC IMPACTS			HOTEL IMPACTS	ANNUAL FISCAL IMPACTS	
	Estimated Annual Out-of-Town Visitors	Estimated Net New Direct Spending*	Total Output	Employment	Labor Income	Estimated Annual Hotel Nights	State Lodging Taxes (7.00%)**	Billings Lodging Surcharge (\$2.00)
Indoor Sports Center	76,000	\$8,572,000	\$15,004,000	174	\$5,407,000	41,000	\$282,000	\$82,000
2-Sheet Ice Arena	22,000	\$2,470,000	\$4,323,000	50	\$1,558,000	12,000	\$81,000	\$24,000
Competitive Swim Center	22,000	\$2,211,000	\$3,890,000	46	\$1,434,000	9,000	\$62,000	\$18,000
TOTAL	120,000	\$13,253,000	\$23,217,000	269	\$8,399,000	62,000	\$425,000	\$124,000

Note: (*) Only includes direct spending by visitors from outside of Yellowstone County.

(**) Assumes 2 nights per out-of-town visitor, and average daily room rate of \$98.

It is estimated that Net Direct Spending resulting from a new competitive swim center in Yellowstone County could generate nearly \$3.9 million in annual economic output and create 46 new full- and part-time jobs throughout the economy with annual wages of over \$1.4 million. Additionally, it is estimated that over 9,000 annual hotel nights could be generated, with \$80,000 in related lodging tax collections (State and local).

SUMMARY OF NET IMPACTS OVER TIME

NET PRESENT VALUE (NPV) OF INCREMENTAL IMPACTS OVER 30 YEARS*					
Project	ECONOMIC IMPACTS			FISCAL IMPACTS	
	Total Output	Employment**	Labor Income	State Lodging Tax (7.00%)	City Lodging Surcharge (\$2.00)
Indoor Sports Center	\$385,924,000	174	\$139,299,000	\$7,096,000	\$2,063,000
2-Sheet Ice Arena	\$121,314,000	50	\$44,069,000	\$2,038,000	\$604,000
Competitive Swim Center	\$114,597,000	46	\$42,570,000	\$1,560,000	\$453,000
TOTAL	\$621,835,000	269	\$225,938,000	\$10,694,000	\$3,120,000

Note: (*) Assumptions include 3.0% annual inflation and 4.0% discount rate.

(**) Represents new full- and part-time jobs sustained on an annual basis.

Over a 30 year period, if a new swim center is developed in Yellowstone County, it is estimated to produce impacts with a net present value (NPV) of nearly \$115 million in cumulative net economic output, 46 sustainable annual jobs, and over \$2 million in state and local hotel tax/surcharge revenues.

XI. PROJECT FUNDING ANALYSIS

The purpose of this analysis is to provide an overview of the various debt vehicles and revenue sources that could potentially be utilized to fund construction of a new sports facility in Yellowstone County. This analysis is based upon a review of comparable venues across the country, as well as unique financing vehicles that may be available within the State of Montana. The vast majority of comparable sports facilities are owned by the public sector and developed via municipal capital project funding (general obligation bonds, revenue bonds, tax increment financing, general funds, etc.).

The analysis in this section is organized into two primary sections, with debt-related financing vehicles presented at the beginning, followed by a summary of various revenues streams that are often used to pay sports facility debt service:

Financing Tools:

- General Obligation Bonds
- Revenue Bonds
- Tax Increment Financing (TIF)

Potential Revenue Streams to Pay Debt Service:

- Naming Rights
- General Funds
- Ad Valorem Taxes
- Public Private Development
- Private Fundraising

Note: Based on a review of the County's 2017 Comprehensive Annual Financial Report (CAFR), the County's most recent GO bonds issued (in 2011) carried interest rates ranging from 1.40% to 2.85%. Based on the City of Billings' 2017 CAFR, the City's most recent GO bonds issued (in 2015) carried interest rates ranging from 2.00% to 3.50%. In order to be conservative with our funding capacity estimates, we have assumed a 3.50% interest rate, and we have also applied a debt service coverage ratio of 1.25x. The funding capacity analyses contained within this section of the report are intended as a preliminary estimate of potential funding capabilities, and it is recommended that the County and/or City consult their financial advisors and public finance experts for more detailed projections and analysis.

Description

Yellowstone County and/or the City of Billings could use the full faith and credit of the County/City to issue **General Obligation (GO) Bonds** for all or part of a sports facility. GO bonds are secured by the issuing government entity's pledge to use all legally available resources, including tax revenues, to pay debt service.

Pros and Cons

The primary advantage of GO bonds is that they typically carry a lower interest rate than revenue bonds, assuming the issuing government entity carries a strong credit rating. Generally speaking, the better the issuer's credit rating, the lower the interest rate.

The primary disadvantage associated with GO bond financing is that the GO indebtedness could reduce the available bonding capacity for other capital projects the County/City may be planning.

Recommendation

According to Yellowstone County's 2017 CAFR, the County currently has two outstanding GO bond issues (in 2008 and 2011 respectively) for a total of \$3 million. Both bonds are related to MetraPark improvements and are expected to be retired by 2023. As of June 30, 2017, the City of Billings' 2017 CAFR showed six outstanding GO bond issues totaling \$30,109,235, which is well below the legal debt limit of \$291,981,354, based on a legal limitation of 2.50% of assessed market value.

A GO bond issue for a new sports facility project could be difficult for the County/City to pass if it is perceived as taking away funds that could be allocated to other uses that the public favors, such as other capital projects, improvements to services or infrastructure, etc.

TOOLS - REVENUE BONDS

Description

Revenue Bonds are payable solely from the revenues of the project that is being financed. Since debt service is tied to the success of the project, revenue bonds are considered to have a much higher risk of default than GO bonds and thus carry a higher interest rate.

Revenue bonds are typically a funding option for public facility development projects where the net operating income (NOI) from the project is conservatively estimated to exceed annual debt service requirements. However, since most public sports facilities do not generate enough NOI to cover debt service, public entities will often dedicate other tax revenues to pay sports facility debt service.

As shown below, depending on the interest rate and debt coverage ratio, it is generally estimated that for every \$1 million of project income (or tax revenue) that is applicable to debt service, 30-year revenue bonds could fund anywhere from \$7 to \$14 million in project costs:

Interest Rate	Bond Term (Yr)	Funding Capacity per \$1M of Available Project Income			
		Debt Coverage Ratio:			
		1.25x	1.5x	1.75x	2.0x
4%	30	\$13,833,627	\$11,528,022	\$9,881,162	\$8,646,017
5%	30	\$12,297,961	\$10,248,301	\$8,784,258	\$7,686,226
6%	30	\$11,011,865	\$9,176,554	\$7,865,618	\$6,882,416

Pros and Cons

One advantage to revenue bonds is that they are project specific, and thus do not diminish the County and/or City's bonding capacity for General Obligation bonds.

One disadvantage to revenue bonds is that they often carry a higher interest rate than GO bonds, and due to debt service reserve requirements and other credit enhancements, the bonds are usually larger with higher payment terms.

Recommendation

The proposed sports facilities in Yellowstone County are not expected to generate sufficient net operating income (NOI) to cover debt service payments. Therefore, it is likely that any revenue bonds issued to pay for the project would need to be backed by tax-related revenue streams.

Description

Tax increment financing (TIF) involves capturing assessed valuation growth within a specified area (e.g. an “Urban Renewal” or “Redevelopment” District). Tax increment financing in Montana is State-authorized via Urban Renewal Law that first began in 1974, however it is a locally-driven funding source, as the Law assigns urban renewal powers to municipal departments or locally-created Urban Renewal Agencies (URA). In an Urban Renewal District, a URA typically delineates a project area and declares a base year. The additional assessed valuation added to the tax rolls over the base year valuation is then taxed at the same rate as the base valuation. However, the tax revenues attributed to the new incremental assessed valuation are remitted to the URA and used to pay debt service on debt issued by the URA.

Pros & Cons

TIF districts can be a powerful tool for financing sports facilities using incremental tax revenues resulting from sports-anchored redevelopment, rather than raising tax rates. However, in order for TIF to be viable, the proposed sports facilities must be a component of a larger redevelopment area, and approvals typically must be obtained from the relevant taxing authorities within the defined district.

In the case of the South Billings Urban Renewal Association (SBURA), approvals for expenditure of funds must be obtained from the City of Billings, whereas project identification and selection is performed by SBURA.

Recommendation

After meeting with SBURA, Victus Advisors learned that there are up to 10.1 acres of land potentially available next to Amend Park. Additionally SBURA is willing to invest in a facility or facilities with available cash on hand to be leveraged with other potential sources of funding. The primary caveat is that the facilities would have to be publicly owned if SBURA were to pay for construction costs, however the facilities could be privately operated (via contract management) so as not to impact City operating budgets. Lastly, SBURA believes that indoor sports tourism facilities could be the number one priority for the Association, and that a decision to invest in such a project could be made within a matter of months.

The primary caveat is that any facility built with SBURA funds would have to be publicly-owned, however the facility could be privately operated (via contract with the public owner) so as not to impact government operating budgets. Based upon Victus Advisors' financial operating projections for each of the three facility development options (as shown in Section IX), it is estimated that a new indoor sports center and/or a new ice arena could be viably operated by a private operator without ongoing operating subsidies from the public sector. Whereas, a competitive swim center is likely to require public operations and annual operating subsidies.

As a result, Victus Advisors believes that locating one or more indoor sports facilities within SBURA's district may be a financially feasible option for constructing new sports venues in the County without the need for a mill levy vote. From SBURA's perspective, in addition to their contributions, a private fundraising goal of roughly 24% to 30% per project scenario is their target.

Description

Private sector corporations, charitable foundations, or wealthy individuals often make significant up-front financial commitments that can be used to fund sports facility construction costs, in exchange for **naming rights** to the facility. Frequently, these financial commitments are contractually obligated to be paid over a multi-year term.

Pros and Cons

Capitalizing contractually obligated naming rights revenues for the purpose of funding project construction costs can be very risky if the facility is not projected to produce a significant annual operating margin. However, it should be noted that Victus Advisors' financial operating projections shown in Section X of this report only show typical annual indoor signage and advertising revenue, and therefore it is estimated that facility-wide naming rights could potentially be utilized by private fundraising efforts in Yellowstone County to help contribute towards facility development.

Recommendation

Project stakeholders could engage with local corporations, charitable foundations, and/or wealthy individuals to consider making significant up-front financial commitments to fund sports facility construction costs in exchange for naming rights to the facility. This has been done at comparable facilities, such as Ressler Motors Ice Rink in Bozeman, which was either partially or wholly funded by Ressler Motors up-front financial contributions.

Description

The County and/or City could choose to support the proposed sports facilities with an allocation of **general funds** from the County and/or City’s coffers. Allocation of general funds typically requires available funds (or an unexpected revenue windfall) that is free and clear of any other government obligation. In many cases where general funds have been used to develop comparable sports facilities, general funds have not been used to pay for the entire capital project, but rather used to pay a portion of development costs and thus reduce the amount of debt that needs to be issued.

Recommendation

As of 6/30/2017, Yellowstone County reported a general fund balance of approximately \$6.5 million, which is not likely to be used as a significant funding source for sports facility development.

The City of Billings’ general fund balance as of 6/30/2017 was significantly larger than the County’s, at approximately \$28.3 million, as a result of “years of modest spending combined with improved property tax revenues” (according to the City’s 2017 CAFR). However, the 2017 CAFR also indicates that a portion of the unassigned general fund balance will likely need to be used for expansion of existing City facilities over the next five years, in order to keep pace with continued population growth.

REVENUE - AD VALOREM TAXES

Description

Ad valorem taxes are taxes collected on the value of a transaction or property, typically in the form of property taxes or sales taxes. There is no sales tax in the State of Montana, either at the local or state level, therefore property taxes are typically the largest source of tax revenues for City and County governments in Montana. For example, in the 2016-17 fiscal year, Yellowstone County levied a County-wide property tax at a millage rate of 112.4. According to the County’s 2017 CAFR, this property tax represented approximately 75% of the County’s revenues.

Recommendation

A mill levy ballot measure could be considered to increase the local property tax rate to pay the debt service for construction of a new sports facility. A mill levy would be subject to voter approval, and therefore the decision to pursue such a measure would be dependent on the County’s assessment of voter interest in increasing the millage rate for a sports facility project. As shown below, Victus Advisors preliminarily estimates that for each 1-mill increase in Yellowstone County, funds could be generated for nearly \$1.5 million in facility construction costs.

	2016-17 Yellowstone County Property Tax Collection	Scenario 1 +1 Mill	Scenario 2 +5 Mills	Scenario 3 +10 Mills
Property Tax Collections ¹	\$11,393,611	\$11,494,978	\$11,900,444	\$12,407,277
County-Wide Property Tax Rate	0.1124%	0.1134%	0.1174%	0.1224%
Estimated Taxable Property Value ¹	\$10,136,664,591	\$10,136,664,591	\$10,136,664,591	\$10,136,664,591
Annual Incremental Property Tax Revenues	-	\$101,367	\$506,833	\$1,013,666
Estimated Funding Potential		\$1,491,000	\$7,457,000	\$14,915,000

¹Source: Yellowstone County 2017 Comprehensive Annual Financial Report

* Assumes 30-year bonds, 1.25x coverage ratio, 3.5% interest

Description

The funding of sports tourism facilities via **lodging and visitor taxes** is a growing trend across the country. Sports tourism through attendance at regional/national tournaments can drive multi-day stays at nearby hotels, as well as incremental retail and restaurant spending within the local market. Therefore, local hoteliers are often supportive of using hotel occupancy tax dollars to build sports tourism facilities that will generate incremental room nights. Currently, the State of Montana assesses a 7.0% lodging tax statewide. 3.0% of that goes to the State’s general fund, with the other 4.0% allocated to support tourism sales and marketing efforts (via the Montana Office of Tourism, local/regional convention and visitors bureaus, etc.). According to Visit Billings, they receive approximately \$350,000 a year from the State via these sales/marketing funds.

In addition to the State’s hotel tax, the Billings Tourism Business Improvement District assesses an additional \$2.00 per occupied room night within the City of Billings. In the 2016-17 fiscal year, this \$2.00 occupancy fee generated approximately \$1.67 million in revenue.

Recommendation

The City could potentially consider pursuing an increase of the local hotel occupancy fee in order to develop a dedicated revenue stream to pay the debt service for construction of a new sports tourism facility. As shown below, for every \$0.25 increase to the City’s hotel occupancy fee, Victus Advisors estimates that nearly \$3.1 million in project funding could be raised, based upon 2017 visitation levels.

	2016-17 City of Billings Hotel Tax Collection	Scenario 1 \$0.25 Increase	Scenario 2 \$0.50 Increase
Estimated Taxable Hotel Stays	835,152	835,152	835,152
Hotel Tax Rate	\$2.00	\$2.25	\$2.50
Hotel Tax Collections ¹	\$1,670,303	\$1,879,091	\$2,087,879
Annual Incremental Hotel Tax Revenues		\$208,788	\$417,576
Estimated Funding Potential		\$3,072,000	\$6,144,000

¹Source: City of Billings 2017 Comprehensive Annual Financial Report

Note: Assumes 30-year bonds, 1.25x coverage ratio, 3.5% interest

Description

Although public funding sources are important components for most of the sports facilities we reviewed, some public assembly venue projects across the country recently have been funded with a combination of public and private funds. These public-private partnerships, commonly referred to as “**P3**” **development**, usually involve a contract between a public sector agency and a private party, and the contract is typically structured so the private party assumes substantial project development and/or financial operations risk (in exchange for profit opportunity). There are a variety of ways to structure a P3 development, depending upon the profit opportunity and parties involved. The most important part of establishing a P3 project is finding private sector investors that are interested in working with the public agency on the particular proposed project. Local government funders would need to identify potential partners early in the project, likely via issuance of an RFI or RFQ, in order to construct an effective partnership. However, sports facility operations alone are not likely to attract a P3 partner, but rather a P3 partner would likely require mixed-use revenue streams (such as retail, residential, etc.) in order to generate a sufficient return on capital.

Typical incentives for a governing body to utilize a P3 model for development include:

- Preservation of government body debt capacity for other projects,
- Reduction of the government body’s risk associated with the project by transferring operational risk and debt service risk to the private sector, and/or
- Expedited project delivery by moving responsibility for purchasing and procurement from governmental processes to the private sector.

Recommendation

As mentioned on the previous page, in order for a P3 funding approach to be viable, the profit opportunity must be attractive to a private sector development partner. In the case of potential Yellowstone County sports facility developments, the net operating income available from the proposed facilities are not likely to attract a P3 partner, as projected annual operating margins are not likely to generate a sufficient return on capital for a P3 project partner.

Based on Victus Advisors' experience in the sports facility industry, the P3 model for funding construction of a youth and amateur sports facility development is usually only viable when the private developer is developing a larger, mixed-use project, with the sports facility serving as a component of the overall master plan, and the P3 developer generating their return on capital from the development of retail, restaurants, hotel, residential units, etc.

It should be noted, however, that if sports facility development were to occur in the South Billings Urban Renewal District, the Tax Increment District would already be set up to capture future private development tax revenue.

Description

Some communities prefer to market the naming rights of public-use amenities to private foundations or individual donors. Unlike corporate naming, which frequently have annual payments tied to a multi-year term, **private naming gifts** are often given as a lump sum that can be applied towards upfront capital costs. These types of large, private donations are most often associated with a facility that is either operated by a non-profit entity, or whose operations are supported by a specific non-profit foundation. That said, it should also be noted that “charitable contributions to governmental units are tax-deductible under section 170(c)(1) of the Internal Revenue Code if made for a public purpose” (source: irs.gov). Private donation campaigns are often conducted in conjunction with community-led plans (rather than government-led) to construct a new or renovated/expanded ice arena. Often the naming rights are granted to the largest donation, which is typically announced as the lead gift to the campaign. In some cases, the lead/naming gift will be structured as a “matching gift” that is paid once the campaign reaches a pre-determined fundraising goal via other community sources.

As a recent example, the Paul Stock Aquatic and Recreation Center in Cody, Wyoming, cost \$9.9 million to build in 2001 (approximately \$17.1 million in 2017 dollars) and was funded 100% privately by the Paul Stock Foundation (\$7.1 million) and a capital campaign (\$2.8 million). In addition, the Stock Foundation also committed an additional \$2 million endowment to help support the annual operations of the facility, which is publicly operated by Cody Parks & Recreation.

Recommendation

Based upon feedback from SBURA, even if SBURA was able to fund the majority of new sports facility construction costs, they could require up to 30% of the total construction costs to be funded via community fundraising. In addition, for any new sports facilities that could not be built with public funds, local stakeholder groups for those facilities might consider private-only fundraising opportunities that focus on scaled back venues (such as a 1-sheet ice facility or a short course pool). Lastly, a competitive swim center could require additional private fundraising support to help subsidize the annual operations of the facility, unless public revenue sources are dedicated.

XII. FACILITY MANAGEMENT ANALYSIS

INTRODUCTION

The purpose of this section is to present an overview of various options regarding the management and operations of potential new sports facilities in Yellowstone County.

Each potential management structure for the proposed facilities has its own unique advantages and disadvantages, which should be considered when making decisions regarding the management of the venue(s).

The following section provides an overview of each potential facility management structure.

1. Facility Management Options:
 - a) Public
 - b) Private
 - c) Other (Sports Commission, Non-Profit, Agency/Bureau)

2. Facility Management Recommendations for Yellowstone County

MANAGEMENT OPTIONS: PUBLIC

PUBLIC: Public management of youth and amateur sports facilities is commonplace within the industry. Facility operational control within a government is typically accomplished either by creating a separate department that is responsible for facility management or by designating responsibility to a department that already exists within the government (often Parks & Recreation).

- **ADVANTAGES:** The advantages of public management include owner control, financial support via public funding sources, potential sharing of public sector staff and support functions (security, waste management, grounds keeping, maintenance, etc.), and governmental purchase power can help reduce the costs of goods and services.
- **DISADVANTAGES:** Some disadvantages of public management could include significant increases in public sector operating/maintenance budgets, a lack of private sector financial support, decision-making and contracting constraints due to public sector processes, or a lack of expertise and relationships in the sports industry among public staff.

MANAGEMENT OPTIONS: PUBLIC (CONT.)

A summary of key advantages and disadvantages to the public sector associated with public management is shown below:

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • Owner control • Financial support • Coordinating/sharing of staff/support functions • Bulk-price purchasing • No management fees 	<ul style="list-style-type: none"> • Increased public sector budgets • Lack of outside/private sector financial support • Civic service constraints • Contract approval requirements • Changing political policies • Lack of incentives • Limited flexibility • Lack of expertise and access in sports and industry

MANAGEMENT OPTIONS: PRIVATE

PRIVATE: In some cases, the management of a publicly-owned sports facility could be outsourced to a third-party operator. This may be the most viable management option for Yellowstone County, given the budget limitations of Billings Parks & Recreation.

- **ADVANTAGES:** The public owner retains rights and privileges of ownership while the management firm performs assigned functions. The private firm is motivated by profit incentives to maximize tournament usage and other profitable uses of the facility. They usually bring a network of relationships to leverage for event booking, and they often have greater staffing resources and flexibility in negotiations with events.
- **DISADVANTAGES:** Some disadvantages of private management could include lack of owner control over events held or rates set at the facility, less access to general public use, and costs of paying facility management fees.

MANAGEMENT OPTIONS: PRIVATE (CONT.)

A summary of key advantages and disadvantages associated with contract management is shown below:

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • Greatest operating autonomy • Efficiency incentives • Network of relationships to leverage event bookings • Internal network of knowledge/experience • More independence in negotiations • Greater staffing resources • More objective criteria for accountability • More efficient procurement process • Design and pre-opening services • Less financial risk for owner 	<ul style="list-style-type: none"> • Potential loss of direct control by owner • Profit motive versus economic impact motive • Facility management fees • Management personnel turnover • Corporate resources often spread among several facilities • Misaligned purpose and goals between owner and management firm • Less access to public use

MANAGEMENT OPTIONS: OTHER

OTHER: In some cases, a public owner will outsource the management of a facility to a third-party via a sports commission, a non-profit organization, or an agency or bureau. It should be noted that non-profit operations are currently utilized successfully in Yellowstone County at Centennial Ice Arena and Amend Park, among others.

SPORTS COMMISSION (PUBLIC, PRIVATE OR HYBRID): Sports commissions are created to attract local, regional, and international sports events to capture tourism revenue. The commission's priorities typically include, but are not limited to (in order): visitor spending, marketing the region, representing the sports industry in the community, supporting the local sports franchises and venues, and sports advocacy.

Sports commissions can be public, private or a hybrid. Public sports commissions usually housed within a convention and visitors bureau (CVB) and receive funding through CVB and city budgets, dedicated hotel tax and/or car rental taxes. Private sports commissions are driven through the private sector and are typically sustained through fundraising events, private donations, membership fees, and sponsorships. Hybrid sports commissions have a mix of public and private funding and representation. Each type of sports commission typically has a board of directors.

MANAGEMENT OPTIONS OTHER (CONT.)

NON-PROFIT (PRIVATE): Under this form of management, the organization is typically run under the guidance and supervision of a Board of Directors. Members of the board tend to be local community leaders and stakeholders. Victus Advisors believes the non-profit model could be successful for operating a new 2-sheet ice arena, given the success of the current non-profit operating model at Centennial Ice Arena.

This structure requires active and continued support both in labor and funding from the community. The organization would need to depend on donations and grants (in most cases donations would be tax deductible) from individuals, companies, and government entities in addition to volunteer labor hours to be sustainable in the short and long-term.

AGENCY OR BUREAU (PUBLIC): Agencies, bureaus, and authorities are political subdivisions formed by local or state government entities. Relevant examples include special services districts (such as a parks district or an arena district) or a convention and visitors bureau (CVB). Much like a non-profit, agencies or bureaus are typically governed by a Board of Directors with Board members consisting of elected officials and local stakeholders. Although it is independent, an agency or bureau would need a dedicated revenue source. CVBs often rely on tourism taxes, for example.

MANAGEMENT OPTIONS OTHER (CONT.)

A summary of key advantages and disadvantages associated with sports commission, a non-profit organization, or an agency or bureau management is shown below:

ADVANTAGES

- Community's best interest at heart (All)
- Aligned vision with City (public sports commission/agency/bureau)
- Limited use of public funds to maintain operations (non-profit)

DISADVANTAGES

- Risks alienating groups in community (non-profit)
- Lack of diverse interest groups (non-profit)
- Would need dedicated revenue source to sustain operations (sports commission/agency/bureau)

Numerous publicly-owned venues across the country have contracted day-to-day operations to a private management company. Under contract management, the facility owner retains all of the rights and privileges of ownership while the contract management firm performs assigned management functions. The owner sets policies while the contract management firm establishes procedures in order to implement the policies. The contract management company is typically responsible for the day-to-day operations of the facility, including all revenues and expenses. Any operating income generated by the contract management firm are typically used to pay their management fees first, with distribution of the remaining operating income subject to the terms of the operating agreement. It should also be noted that most private management companies are not responsible for long-term maintenance of the facility or capital improvements, which typically are the responsibility of the facility owner.

The following operating scenarios have been identified by Victus Advisors as contract management scenarios that are typically considered by public sector owners of sports facilities:

Fixed Annual Fee:

At a minimum, the operator is typically compensated with a flat annual fee. Based upon our experience the minimum annual third-party operating fee for a sports facility is typically \$100,000, but can go upwards from there depending on the size, scale, and profitability of the venue.

Incentive Bonuses (in addition to Fixed Annual Fee):

Fixed fee management agreements are often accompanied by incentive payments designed to reward the operator for producing desired results. Incentives could be based on achieving specific revenue (or profit) goals, attendance, events, room night generation, or other targets.

In a fixed annual fee operating scenario, the facility owner (public sector) is typically entitled to any remaining profits after facility costs and management fees. However, facility owners often provide additional incentive compensation via a revenue (or profit) share once the operator achieves pre-set annual goals. For example, the hypothetical below shows potential additional incentive pay to an operator based upon a 40% profit share after \$200,000 in annual profits has been achieved:

	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>TOTAL</u>
Monthly Operating Margin:	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$300,000
Annual Cumulative:	\$25,000	\$50,000	\$75,000	\$100,000	\$125,000	\$150,000	\$175,000	\$200,000	\$225,000	\$250,000	\$275,000	\$300,000	\$300,000
Incentive Pay to Operator:	-	-	-	-	-	-	-	-	\$10,000	\$10,000	\$10,000	\$10,000	\$40,000

Alternative Scenario - Full Operating Rights (No Fixed Fee):

One common alternative operating scenario, instead of management fee and incentive structures, is for the facility owner to simply grant (or license) the operating rights to an operator, frequently at no cost to the operator, or occasionally with a small annual percentage fee or fixed fee paid to the owner based upon profits. In this scenario, the operator would then be solely responsible for profit and loss, however any long-term capital needs would typically still be the responsible of the facility owner.

MANAGEMENT RECOMMENDATION: COMPETITIVE SWIM CENTER

Recommendation

- It is recommended that a competitive swim center be operated by a public entity such as Yellowstone County or the City of Billings, with dedicated public revenue sources to subsidize the operations, unless a private, non-profit, operator group in Yellowstone County is capable of fundraising significant annual funds to subsidize their operating losses.

Rationale:

- Based upon a review of comparable indoor sports facilities throughout the region, indoor swim centers can be among the most expensive amateur sports facilities to build and to operate. As a result, these facilities tend to be publicly owned and operated, with operating subsidies for aquatic facilities typically funded by a government entity's general fund or another dedicated tax source.
- That said, the Paul Stock Aquatic and Recreation Center in Cody, Wyoming, which is operated publicly by the City's Parks & Recreation department, utilizes operating subsidy funds provided by the private non-profit Stock Foundation, which committed an additional \$2 million to an endowment to help support the public operations of the facility.
- Any funding plan for a new swim center in Yellowstone County should include not only initial construction costs, but also the establishment of long-term funds for on-going operations and maintenance.



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